

**Focus**

Radioactive Water Leaks

Japanese Nuclear Disaster  
Rumors Spreading

**Nation & Politics**

The Korea Forest Service

Doing Utmost to Implement  
Creative Economy

**Industry & Companies**

Samsung's Regrouping

Business Units Transferred  
and United

# BUSINESSKOREA

SEPTEMBER 2013 / VOL. 31 No. 344

[www.businesskorea.co.kr](http://www.businesskorea.co.kr)

FINANCIAL INDUSTRY

## Losing Appeal and Slowing Down

12,000 won

09



9 771016 530003  
ISSN 1016-5304



30<sup>th</sup>

The special edition to  
celebrate the 30<sup>th</sup> anniversary  
of BusinessKorea





# 서울 국제 항공우주 및 방위산업 전시회 2013

Seoul International Aerospace & Defense Exhibition 2013

## 청주국제공항 에어쇼

- 기간 : 2013년 10월 25일(금)~10월 27일(일)
  - 전시 : 에어쇼 및 항공기 전시, 체험
  - 장소 : 청주국제공항(무료입장)
- [www.airshow.or.kr](http://www.airshow.or.kr)

## 서울 국제 항공우주 및 방위산업 전시회

- 기간 : 2013년 10월 29일(화)~11월 3일(일)
  - 전시 : 실내외 전시, 세미나
  - 장소 : 일산 KINTEX(예매:인터파크)
- [www.seouladex.com](http://www.seouladex.com)



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SEPTEMBER 2013 / VOL. 31 NO.344



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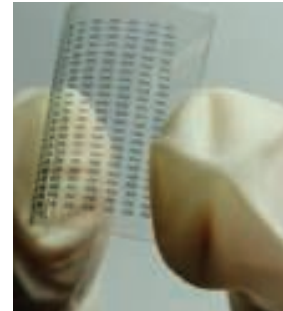
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**PUBLISHED BY:** BusinessKorea Co., Ltd. : 301 Samdo Building,  
 12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010  
**Mailing Add.:** 301 Samdo Building,  
 12-1 Yeoido-dong, Yeongdeungpo-gu, Seoul, Korea 150-010  
**Tel:** (02)578-3220 **Fax:** (02)578-3224  
 Government Registration Number: RA-2743 Dated March 18, 1983.  
 Printed by Hwashin Printing Tel: (02)2277-0624

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## To Our Readers



### Why is China Making Such a Pitch for the Resumption of Six-party Talks?

China and North Korea are claiming that the six-party talks be resumed with no strings attached whereas South Korea and the United States are against it calling for Pyongyang's denuclearization.

On September 18, Kim Kye-gwan, First Vice Minister of the Ministry of Foreign Affairs of

North Korea, participated in the discussion session in Beijing for celebrating the eighth anniversary of the September 19 Statement for Denuclearization and the 10th anniversary of the first six-party talks and requested an unconditioned dialogue. However, Washington clearly expressed its intention of refusal, demanding that Pyongyang's denuclearization come ahead of anything else. Under the circumstances, China is throwing the ball again into the court of the US in the North's place.

With such different stances of the US and China, things have been moving in the opposite direction since the summit talks in August between South Korean President Park Geun-hye and Chinese President Xi Jinping. At that time, the latter strongly criticized Pyongyang and Russian Foreign Minister Sergei Lavrov also showed a hard-line stance during his phone call with his counterpart in Korea. It appeared that all of the six countries but North Korea built a cooperative framework with a single voice against the North.

However, high-ranking officials of Pyongyang and Beijing have frequently met with each other since the South Korea-China summit talks and now the Chinese President is urging President Barack Obama to resume the six-way talks. It has been recently also found that the Chinese and Russian chief delegates to the talks had a meeting in Beijing on September 19. In short, the North, which was driven into a corner after the third nuclear test, has held hands with China and Russia to attract the US and the South to the negotiating table.

In the meantime, North Korea unilaterally cancelled the reunion of separated families in just three days from the discussion session in Beijing and passed the buck to the South. Experts are saying that Pyongyang is pacing itself in the inter-Korean relations as the policy coordination among the five countries is showing signs of crumbling and China is siding with it.

China is focusing on the six-way talks again in close cooperation with North Korea. It is interpreted as a will to regain the diplomatic and security initiative in the Korean Peninsula and Northeast Asia by using the North as a sort of leverage. Keen attention is paid to the Park Geun-hye administration's countermeasures for the implementation of the trust-building process in the controversial regions.

Park Jung-hwan,  
 Publisher & Editor-in-Chief

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## RADIOACTIVE WATER LEAKS

# Japanese Nuclear Disaster Rumors Spreading



A Greenpeace team member's contamination monitor hits its maximum of 9999 at Tsushima village, 40 km from the Fukushima Daiichi Nuclear Power Plant, on March 26, 2011.

Rumors about radiation leaks in Japan were spreading like wildfire on the web as the Japanese government admitted late in July that radioactively-contaminated underground water had flowed into the ocean for over two years since the Fukushima disaster.

It has also recently been found that highly radioactive water in the storage tanks in the region is being leaked to contaminate the sea, with the government failing to come up with appropriate countermeasures. No one can tell for now how severe things are and what the Japanese government is hiding, the consequence of which is the diffusion of the myth.

The Korean government held a ministerial meeting late in August to cope with the spread of the rumors more effectively than by punishing those circulating them. The Ministry of Food and Drug Safety announced that it would step up its radioactivity checks to twice a week on major imported marine products and make the test results public. The Nuclear Safety and Security Commission is planning to measure the degree of radioactive contamination of coastal seawater, rainwater, and the atmosphere, and announce the results every other week as

well.

### Import of All Fisheries Products from Eight Japanese Prefectures Banned

Prefectures in Japan that will be affected by the new ban.

With the spreading rumors, a recent acknowledgement by Electric Power Co., the operator of the Fukushima nuclear power plant, that 400 tons of radiation-contaminated water are leaking daily from the site of the Fukushima nuclear accident into the Pacific has sharply increased public concerns about the safety of Japanese seafood imports into Korea.

Amid deepening worries over contaminated fishery imports, the Korean government decided to ban all marine products from the eight Japanese prefectures of Fukushima, Aomori, Iwate, Miyagi, Ibaraki, Chiba, Tochigi, and Gunma.

The government announced on September 6 that it reached a conclusion to take the special measure, after having a ministerial level meeting chaired by Prime Minister Chung Hong-won on September 5 and a government-ruling party consultative meeting on September 6.

So far, 50 fishery products from Fukushima and seven adjacent prefectures have been forbidden. However, with the government decision, 33 new items will be banned as well. In total, the imports of 209 fishery items and 74 types of fish will be prohibited.

Seoul also decided to ask Japan to issue additional certificates that show no contamination by other nuclear materials, including strontium and plutonium, even though a very small amount of radioactive materials such as cesium or iodine is detected in fishery or livestock products from any other region of Japan.

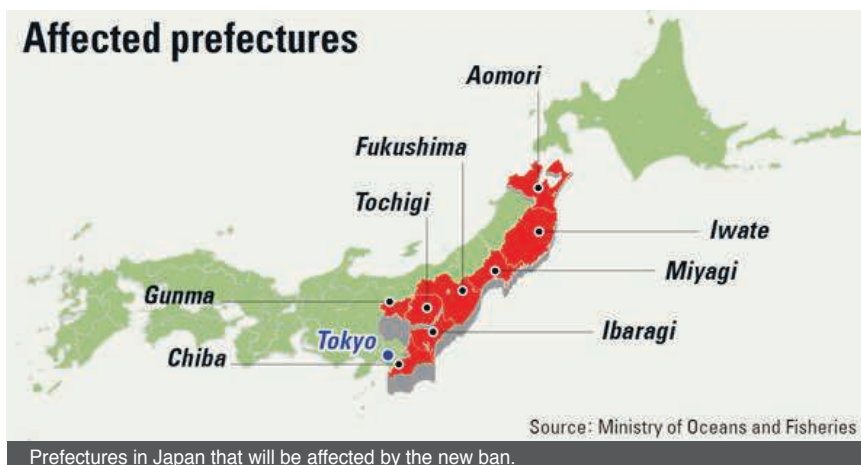
To date, the government has requested certificates that indicate no contamination for agricultural and industrial products. But it has permitted the imports of marine and animal products with cesium at less than 100 becquerel (Bq), and iodine at below 300Bq per kilogram level, on the grounds that those foods spoil easily.

Seoul explained that its recent request helps to ban all kinds of Japanese seafood imports, since it takes 4-6 weeks to issue such certificates. Furthermore, it will reduce the permitted level of cesium in all domestic food products from the current 370 Bq to 100 Bq per kilogram, which is the allowed level of cesium in Japanese food imports. The measure is to prevent incidents where Japanese fishery products disguised as domestic ones are sold in the market.

Chung Seung, minister of Food and Drug Safety, said, "The government decided to take such steps since citizens have been showing increasing anxiety over a daily outflow of tons of contaminated water from storage tanks at the site of the Fukushima reactors into the sea. In addition, the information that Tokyo has provided so far is not sufficient to predict future events."

However, several civic groups raised a concern that the government measure is not enough

### Affected prefectures



Prefectures in Japan that will be affected by the new ban.

to quell the people's fears of radiation.

In response to the government's announcement, the Korean Federation for

Environmental Movement issued a statement. It pointed out, "Korea has no standards for strontium and plutonium subject

to import restrictions. Even if we demand inspections for additional nuclear materials, it is not clear what kinds of standard will be chosen."

Kim Hey-jung, chairman of the organizing committee for the non-governmental Korean Radiation Monitoring Group, said, "In principle, the Korean government should inspect strontium and plutonium levels, since the materials are deadly to humans even with an extremely small amount. However, due to lack of equipment, the government is asking a private company to issue certificates that indicate non-contamination," adding, "Amid Tokyo's continued unreliable actions, it is time for Seoul to come up with a plan to expand equipment and work forces so that it can make its own inspection." **BK**

### RADIOACTIVE CONTAMINATION AND OLYMPICS

## Shinzo Abe's Remarks at IOC Claimed to Be False



Japanese Prime Minister Shinzo Abe

The Tokyo Electric Power Company admitted that Prime Minister Shinzo Abe's remarks about the total control of the contaminated water from the Fukushima atomic power station, which had been made at the recent International Olympic Committee (IOC) general assembly, were false. TEPCO, which runs the power plant, had a press conference at the Korean Embassy in Japan on September 10 with the Korean press and said, "We've already announced that the water flowing out to the outside sea contains tritium and our official stance has not changed."

Three days earlier, Prime Minister Shinzo Abe assured at the general assembly that the contaminated water was completely contained within a 0.3km<sup>3</sup> range from the port of the first unit of the Fukushima Nuclear Power Plant. The purpose of the remarks was to dispel the concerns about another accident and to be chosen as the host city for the 2020 Olympic Games.

However, Yasutaka Denda, who manages the social communication policy of the power company, confirmed that the underwater fence between the port of the power station and the outside sea did not fully block the movement of water and pollutants. "The fence does not completely block the passage of radioactive substances, but filters particulate materials, mud, and the like only to some extent, and we're estimating the amount of tritium that has leaked to the sea since May 2011 at approximately 40 trillion Bq."

Nuclear Regulation Authority (NRA) Deputy Secretary-General Hideka Morimoto also joined the news conference and said, "There might be some questions about the definition of the complete control remarked by the Prime Minister." He went on to say, "I think that the possibility of leakage is not 0%."

With what the Prime Minister said arousing suspicion and criticism both at home and abroad, the International Atomic Energy Agency (IAEA) has decided to send another fact-finding team to the power station this autumn. IAEA Director General Yukiya Amano announced the plan at the regular board meeting held in Vienna, Austria on September 9 (local time), saying, "Concerns over the leakage of the contaminated water as of late are reminding us of the fact that the impact from the accident is ongoing."

Under the circumstances, the Japanese government is busy trying to get things under control. It recently held an on-site meeting in the Fukushima Prefecture with TEPCO and decided to replace all of the 300 tanks that are of the same type as those from which contaminated water has been leaked. A ministerial meeting was convened on the same day as well, to come up with comprehensive measures within two months.



## WORLD ECONOMIC FORUM

# Korea Ranks 25th in Global Competitiveness Index



Korea's global competitiveness is getting mixed reviews. While Korea's rank in the World Economic Forum (WEF) global competitiveness index has dropped by six places, foreign experts and media see Korea as a high-performer at a time of crisis.

The government is also arguing that the WEF report has problems in its evaluation indicators. The government's plan to issue foreign exchange stabilization bonds in foreign currency is also interpreted as a sign of confidence.

## WEF Rank Drops by Six Places

According to the Ministry of Strategy and Finance (MOSF) and WEF on September 4, Korea's rank in the 2013 global competitiveness was at 25th among the 148 countries, six places lower than last year. This is the lowest rank since 2004 when Korea placed 29th.

After ranking its record high of 11th place in 2007, Korea's rank has steadily declined, except for going up to 19th place in 2012 from 24th place the previous year. Looking at the twelve pillars, except for macroeconomic environment, which rose from 10th to 9th, all of others saw a large decline.

Financial market development took the largest fall (71st→81st), followed by institu-

tions (62nd→74th), health and primary education (11th→18th), labor market efficiency (73rd→78th), technological readiness (18th→22nd), higher education and training (17th→19th), and business sophistication (22nd→24th).

Among the evaluation indicators, transparency of government policymaking placed 137th in the world. Cooperation in labor-employer relations (132nd), efficacy of corporate boards (130th), protection of minority shareholders' interests (124th), redundancy costs (120th), and extent of market dominance (118th) also performed poorly.

On the other hand, inflation (1st), tertiary education enrollment rate (1st), intensity of local competition (8th), Internet users (4th), Broadband Internet subscription rate (5th), and foreign market size (5th) performed well.

"Surveys for this report were carried out in April and May, when North Korea risk was at its peak following North Korea's 3rd nuclear test in February and withdrawal of workers from the Gaeseong industrial complex in April. Eight consecutive quarters of low growth rates below 1% may also have had a negative effect on the businessmen who answered the surveys," analyzed MOSF.

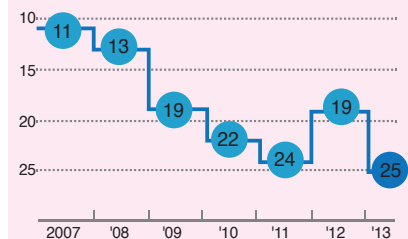
## Ministry of Strategy and Finance Says "Problems in the evaluation indicators"

However, MOSF is not accepting the results as is. They pointed out that the same evaluation indicators received different rankings based on the evaluating institution. Even when using the same methodology, the rankings can change based on the survey target and survey period.

In fact, the International Institute for Management Development (IMD) ranked

## Korea's rank in the global competitiveness index

\* Among 148 countries Ranks by the twelve pillars



## Basic requirements 20(18)

Institutions	74(62)
Infrastructure	11(9)
Macroeconomic environment	9(10)
Health and primary education	18(11)

## Efficiency enhancers 23(20)

Higher education and training	19(17)
Goods market efficiency	33(29)
Labor market efficiency	78(73)
Financial market development	81(71)
Technological readiness	22(18)
Market size	12(11)

## Innovation and sophistication factors 20(17)

Business sophistication	24(22)
Innovation	17(16)

\* ( ) denotes previous year.  
Source: World Economic Forum (WEF)

Korea 22nd, the same as last year. While the WEF rankings have seen huge declines recently, Korea has been ranked a record high of 22nd for three consecutive years by the IMD evaluation.

MOSF also questioned the indicators that went against intuition. Korea's mobile telephone subscription rate is above 100%, but it was ranked only 70th of the 148 countries. From Hong Kong, which placed first, to Ghana, which placed 92nd, countries with more SIM cards than the population ranked high in the index, putting Korea at a lower rank. In fact, the mobile telephone subscription rate in Hong Kong reached 227.9%, Kuwait 191.1%, Gabon 187.4%, and Panama 186.7%. Primary education enrollment remained similar to last year at 98.6%, but Ireland saw a rise from 95.1% to 99.7%, and Myanmar (99.6%) and Tunisia

(99.4%) entered the index, pushing Korea downwards in the rankings.

WEF statistical data was collected directly from the International Monetary Fund (IMF), World Bank (WB), United Nations (UN), World Health Organization (WHO), and surveys were conducted through the Korea Advanced Institute of Science and Technology (KAIST), and Korea Development Institute (KDI).

#### **“Efficient Economic Management” in Face of North Korean Nuclear Threats**

Foreign press and experts are more positive about Korea's performance. Considering there was a high North Korean nuclear risk at the time of evaluation, the new government has shown relatively efficient economic management in its first 5 months.

“Investors are attacking emerging

economies with high current account deficits and short-term foreign debts, but Korea has remained relatively calm,” reported the Wall Street Journal (WSJ) at the end of last month, citing US Federal Reserve officials and market experts.

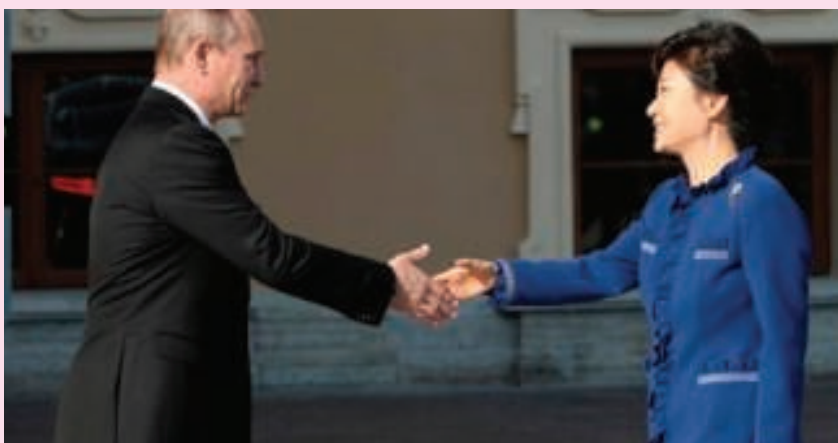
International credit rating agencies Moody's, Standard & Poor's (S&P), and Fitch have also given ratings of Aa3, A+, and AA- to the foreign exchange stabilization bonds to be issued in US dollars by the Korean government.

“Credit ratings for the Korean government reflect a favorable policy environment, healthy financial situation, and overall fair levels of net external debts,” explained S&P.

However, GDP growth declining for the second consecutive year, and its rank plummeting from 57th to 117th among 189 countries, is seen as a bad sign. 

## **G20 IN RUSSIA**

# **President Park Geun-hye Gets Special Treatment in Russia**



President Park Geun-hye shakes hands with Russian President Vladimir Putin in Constantine Palace on September 5, 10 September 2013

President Park Geun-hye is receiving special treatment from G20 summit host Russia.

On September 6, President Park followed Russian President Vladimir Putin's speech to make the lead speech. Russia strongly requested President Park to give the lead speech, as Korea is continuing with a solid growth rate in the face of the global financial crisis and the US Federal Reserve's remarks on the possibility of bond purchase reductions, while many other emerging economies are seeing foreign capital flow out.

After a successful summit with US President Barack Obama in May and Chinese Head of State Xi Jinping in June, President Park has received numerous requests for bilateral talks.

President Putin's special treatment is note-

worthy. In order to secure enough time for the bilateral talks with President Park, President Putin requested to meet after the G20 summit. Rather than meeting during the G20 summit where the time schedule is tight and talks end up being a formality, President Putin wished to take time to talk about political and security issues such as North Korean denuclearization, six-party talks, the trust process in the Korean peninsula, economic cooperation in social overhead capital (SOC) investments, and the gas pipe and railway businesses.

Russian news channel Russia TV 24's broadcasting of the interview with ITAR-TASS was also unconventional. Among the 19 heads of state attending the G20 summit, excluding President Putin, President Park was the only one who got a 20-minute feature aired. The other heads of state and leaders in international organizations were briefly included in a 23-minute group video, with two to three minutes allotted to each person.



## KOREA-VIETNAM FTA

# Promising to Clinch Bilateral Trade Agreement Next Year



President Park Geun-hye and Vietnamese counterpart Truong Tan Sang talk during the joint press conference held at the Presidential Palace in Hanoi on September 9.

**S**outh Korea and Vietnam decided to hold two additional talks in the second half of this year toward a comprehensive and high-standard free trade agreement between the two nations.

On September 9, President Park Geun-hye and her Vietnamese counterpart Truong Tan Sang held summit meetings at the Presidential Palace in Hanoi. During the agreement signing ceremony and the joint press conference, the two presidents issued a joint statement for mutual prosperity that included measures to enhance bilateral economic cooperation.

At the summit talks, the two leaders conducted a detailed exchange of opinions about diplomatic relations between the two countries, the security situation on the Korean Peninsula, and regional and international affairs. They also agreed to strengthen partnership in a bid to promote the welfare of the people in both

countries.

The two presidents decided to deepen the Seoul-Hanoi strategic cooperative partnership established in 2009, and to closely work together regarding their mutual concerns and international problems.

As for the field of economy and trade, they regarded it very highly that the goal to reach US\$20 billion in bilateral trade volume was already achieved in 2012, three years earlier than initially planned. As a next step, President Park and President Truong Tan Sang agreed to increase bilateral trade to US\$70 billion by 2020.

In order to attain the goal, both leaders agreed on accelerating conclusion of a bilateral advanced free trade agreement by 2014, along with consideration of development levels of the two nations.

To strengthen bilateral financial cooperation, a Vietnam office of the Financial


Supervisory Service will be established as early as the end of this year.

In particular, Park and Truong Tan Sang reached an agreement that Korea's experience and technology sharing would contribute to nuclear power development in Vietnam. Both countries agreed to continue to cooperate closely with Vietnamese nuclear power development, so that the construction of ten reactors can be completed by 2030.

In addition, the two presidents made a decision to actively work together and give support in order for Korean companies to participate

in energy infrastructure projects, including the construction of facilities at the Dung Quat oil refinery and thermal power plants in the southern part of Vietnam.

They also signed memorandums of understanding so as to facilitate the construction of the 1,200MW Nghi Son-2 coal-fired power plant project between the people's committee of Thanh Hoa province and the Korea Electric Power Corporation, based on the build, operate, and transfer method.

Finally, both sides reached the conclusion that they will push forward with the "Vietnam Happiness Program," a project that aims to comprehensively develop the deprived areas in line with the Korean "New Village Movement" in an attempt to contribute to Vietnam's development into an industrialized nation by 2020. 

## KAESONG INDUSTRIAL COMPLEX

# In Operation Again with Advanced Security



The business environment is expected to be improved for firms situated in the Kaesong Industrial Complex with Seoul and Pyongyang having agreed to the restoration of the facilities from September 16. Still, some experts are pointing out that more time will be taken for complete and constructive normalization, as both Koreas have yet to concur on specific issues.

The Kaesong Industrial Complex Joint Committee held its second inter-Korean meeting for two days from September 10. The most remarkable part of the agreement derived

from the talks is the introduction of an RFID-based electronic identification system, which is expected to simplify the entrance procedure and improve the business environments for the benefit of the companies housed there.

At the same time, the internationalization of the industrial complex is expected to pick up some speed down the road. Seoul and Pyongyang are planning to attract foreign firms by holding investor relations sessions next month. Both Koreas have already reached an agreement as to the globalization measures, and thus the related details are expected to be made

available at the third and fourth meetings. Their consensus on the damage compensation for the firms in the complex is likely to have a positive effect on the process, too.

One of the pending issues is the installation of mobile and Internet networks. The companies are claiming that these are necessary, but the North Korean government is refraining from allowing them. "Nevertheless, both Koreas have the same opinion that the tools need to be provided before the end of this month, and thus it is no stretch to say that things are quite positive as far as this matter is concerned," said Kim Ki-woong, head of the South Korean side of the committee.

"If the past is any guide, political factors have affected the implementation of various agreements, even after those were finalized," said an inter-Korean relations expert, continuing, "It seems that the Labor Party is in control of things these days, but the restoration of the industrial complex cannot be assured if the military holds sway again." At least for now, the majority of watchers are predicting that North Korea would not resort to a drastic option like the deportation of employees, because it has no more trump cards with regard to the Kaesong Industrial Complex.

In the meantime, keen attention is being paid nowadays to whether Mt. Kumgang tourism will be resumed, as separated family reunions are scheduled for six days from September 25 in the Mt. Kumgang area, and South Korean personnel are staying there now to prepare for the event. However, the South Korean government has stressed that this event has nothing to do with Mt. Kumgang tourism. <sup>BK</sup>

## Recording 56% Production Facility Utilization

Kaesong Industrial Complex, which reopened on September 16, operated normally during the holiday season, except for Chuseok on September 19. On September 17, normalization efforts continued as 335 South Korean employees went into the complex and 530 returned.

In total, 35,000 North Korean workers got to work on this day, an increase of over 31,000 the previous day. The utilization rate also improved to 56% from 53% the previous day.

Related infrastructure organizations such as Korea Electric Power, Korea Electrical Safety Corporation, and KT also continued their equipment checkups. Nurseries and cafeterias at a few companies are not normalized yet, and some companies are still checking their transformer checkups, delaying electricity supply.

On the previous day, the Kaesong Industrial Complex South-North Joint Committee held its 3rd meeting and agreed to hold negotiations for the opening of an office for themselves on September 24. They also agreed to hold the seminar on joint investment in the Kaesong Industrial Complex on October 31.



## THE KOREA FOREST SERVICE

# Doing Utmost to Implement Creative Economy and Provide Forest Welfare



Shin Won-sop  
Minister of the Korea Forest Service

The Korea Forest Service (KFS) is working on various programs for the development of leisure culture and welfare services for the general public with the importance of forestry and forest protection on the rise amid global climate change. At the same time, the organization is contributing to the implementation of the creative economy and job creation by opening its forest-related data to the public. Business Korea recently interviewed KFS Minister Shin Won-sop to hear about the Park Geun-hye administration's forest policy. The following are excerpts from the interview with the Minister.

**First of all, what is the KFS moving ahead with in order to implement a creative economy, which is one of the key national policy goals of the current administration?**

My agency is putting a significant amount of resources towards combining forest administration with a variety of other sectors to realize the creative economy in the field of forest management, and to adopt more advanced information

technologies on-site.

For example, we released the Healing Train into the Forest sightseeing product for recreational forest aficionados together with KORAIL in August. It is a new cooperative business model. Also, we have utilized smart devices such as tablet PCs in forest surveys to shorten the time required to perform them by at least 60%, while boosting the survey accuracy, productivity, and efficiency.

In addition, we are trying to create jobs, share our data, and cooperate more closely with other agencies in an attempt to realize the core value of the incumbent government. We are planning to make 57 out of our 75 databases public by 2017, including mountain trail information. By Mountain Day this year, October 18, we plan to make five databases public. These are information about mountain trails, forest paths, forest type maps, illustrated plant books, and the Korean Plant Names Index.

The first two of them have much to do with the welfare of the general public. We are expecting that the private and corporate sectors will be able to make good use of them to create new value in tourism, education, and convergence industries in the form of navigation maps, applications, and the like. The last two, in the meantime, will cover the A to Z of the flora of the coun-

try so that the people can become more familiar with the native plants.

**These days, the popularity of forests is increasing among urban dwellers as a place for rest and healing. It is thought that not a few new forest-related projects are feasible to meet the policy agenda of the incumbent administration for the well-being of all people.**

The healing function of forests is drawing much attention as social conditions are going through changes in the middle of urbanization and the aging of the population. Under the circumstances,



Schooling in forests :  
Forest art camp held in the Saneum National Recreation Forest

the KFS is in pursuit of various policies to enhance the welfare of the people by means of forest-based healing.

For instance, the KFS is going to build 34 National Healing Forests and two Forest Healing Complexes nationwide by 2017, so that more people can benefit from the function. Plus, we will train at least 500 forest healing instructors until then. 36 of them have completed their courses at the end of September this year. Related laws will be revised for city dwellers to enjoy the healing programs in nearby forests, too.

**The government is trying to foster the development of eco-friendly energy sources, but the construction of wind power stations in industrial complexes is progressing slowly. What is your solution to this problem?**

The KFS has been engaged in the supply of wood pellets since 2009. It has consumed approximately 500,000 tons of wood pellets by September 2013 to take the place of about 230,000 tons of petroleum.

It is expected that the necessity of new and renewable energy sources will continue to increase down the road as fossil fuel replacements. However, as you already mentioned, the related projects have some issues to deal with such as damage to the landscape, natural disasters, noise, and conflicts with local residents.

The KFS will work more closely together with the authorities concerned to facilitate the construction of wind power plants in industrial zones and better meet the eco-friendly energy policy of the government. We will come up with legal and systemic improvements for the growth of the wind power industry while minimizing the damage and forestalling the possibility of natural disasters.

**What is the current status of cross-border cooperation and exchange, and how are foreign countries interested in Korea's afforestation experience and technologies?**

Korea, 64% of the territory of which is forests, is one of the afforestation suc-

cess cases officially acknowledged by the UN. Also, its experience since the Second World War has been extolled by the Food and Agriculture Organization (FAO), and a lot of countries around the world are hoping to share the experience and technologies we have developed.

My agency is moving ahead with afforestation projects for the prevention of desertification and restoration of forest ecosystems in China and Mongolia. It has been imparting its advanced technologies to Indonesia, Myanmar, and the like as well.

Korea, as the chair country of the United Nations Convention to Combat Desertification (UNCCD), has taken a leading role in Africa to fight the desertification of that continent, too. For a stable supply of wood resources, Korean companies have made inroads abroad and developed forests with us. Between 1993 and the present, a total of 30 corporations have found their way into 13 countries and made woodlands as wide as 290,000 ha, which is equivalent to five times the area of Seoul.

Such afforestation projects in developing countries not just help their wood production, but also contribute to the livelihood of the locals, ensure the sustainable development of forests, and prevent the devastation of forests. For wider international cooperation in the industry, the KFS has signed agreements with 22 countries and launched co-projects for afforestation, restoration of devastated regions, and anti-climate change efforts.

**Your organization is actively participating in the UN REDD+ Programme. What are its accomplishments up to this moment?**

The UN REDD+ Programme, which




**Forest healing :**  
Students are enjoying phytonchid fragrance from retinispora trees in forests

stands for Reducing Emissions from Deforestation and forest Degradation in developing countries, grants carbon emission rights to those that better cope with climate change by preventing the appropriation and devastation of forests in developing regions. Advanced economies are expecting much from the program as a way of offsetting their greenhouse gas emissions.

Korea has the ambitious goal of cutting its greenhouse gas emissions by at least 30% compared to the business as usual (BAU) scenario by 2020. The forest sector's target is 40 million tons, 30 million at home and 10 million abroad.

The KFS is spearheading the efforts to establish cooperation networks with vulnerable developing countries in Southeast Asia, including Cambodia, Indonesia, Myanmar, and Laos. Various pilot projects are underway to reduce CO2 emissions too.

We are focusing on Indonesia as one of the regions where the potential of REDD+ is particularly large. At present, an inter-government test project is in progress in the 14,000ha-wide peat land in Sumatra for the prevention of the appropriation of forests and sustainable forest management. Business registration and the procurement of carbon emission rights are scheduled in the near future there, too. 

## KOREA RADIOACTIVE WASTE AGENCY

# KORAD Holds New Name and CI Announcement Ceremony



KORAD CEO Song Myung-jae and others take photos after the announcement of new name and CI on August 14.

On August 14, the Korea Radioactive Waste Agency (KORAD) held an announcement ceremony of its new agency name and CI under the slogan, “KORAD considers humanity’s coexistence with nature.”

The name change is made in order to get rid of the negative image of the words “radioactive” and “waste” included in the existing name, and to meet residents’ requests in Gyeongju City where a radioactive waste disposal site is located. On June 25, the plenary session of the National Assembly passed a bill to change its name from Korea Radioactive Waste Management Corporation to Korea Radioactive Waste Agency.

The public was invited to make its new name, thus creating KORAD. In a survey of public preferences, 80.7% of people liked the changed name.

KORAD president and CEO Song Myung-jae said, “The government, National Assembly, and Gyeongju residents helped our agency have a new name that matches our vision and value,” adding, “We will contribute to public safety and environmental conservation with the more

safe and transparent management of radioactive waste.”

With the announcement of its new name and CI, the agency expects that it will become a positive and eco-friendly organization that represents the region, and that radioactive waste management will have a higher status. KORAD became the first public organization to move its main office to Gyeongju in March 2011, 3 years earlier than originally planned, so as to secure trust regarding radioactive waste management and invigorate local economies.

In July, the agency held a technical conference with ONDRAF/NIRAS, the Belgian National Agency for Radioactive Waste and Enriched Fissile Material. In the conference, Jean-Paul Minon, general manager of ONDRAF/NIRAS, explained the present conditions of short-lived low and intermediate level radioactive waste management, and disposal facility construction in Belgium. The general manager stressed the importance of communication and cooperation with local community, while talking about his experience and expertise in building partnerships with the local community for disposal facilities. In Belgium,


the cAt project is under way in Dessel in order to dispose of short-lived low and intermediate level radioactive waste.

KORAD applied for a construction certificate in January 2013. In 2018, the management of the facility will be made possible. Currently, it is moving forward with a construction plan by forging a partnership with the local community in various areas from site selection to design, and review of the construction certificate.

The agency announced on September 22 that the KORAD president and CEO visited the Nuclear Decommissioning Authority (NDA). KORAD and NDA signed and exchanged technical cooperation agreements in September 16 for safe management of radioactive waste.

NDA is a non-departmental public body of the United Kingdom created through the Energy Act 2004. The agency is responsible for decommissioning and cleaning-up of civil nuclear facilities, developing low-level radioactive waste strategy and plans, implementing government policy on the long-term management of high-level radioactive waste, and ensuring that all the waste products are safely managed. It also advises the Department of Energy and Climate Change (DECC) on the quality of the operator’s decommissioning plans.

Both sides expect that the exchange of information and experience in radioactive waste management will help move the two organizations closer to its safe and efficient management.

KORAD is pushing forward technical cooperation and exchange activities by signing technical cooperation agreements with agencies in charge of radioactive waste management in Sweden, France, Japan, Switzerland, the US, and Spain. 



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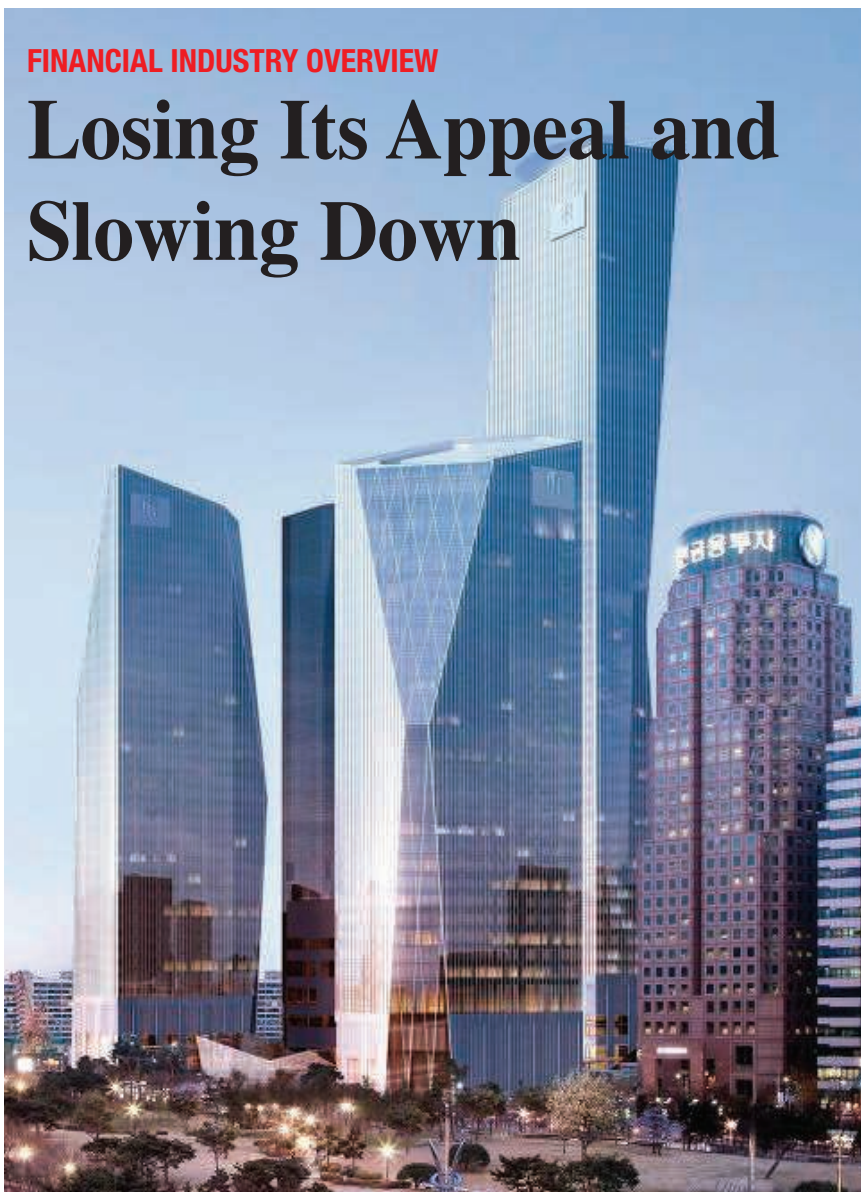
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## FINANCIAL INDUSTRY OVERVIEW

# Losing Its Appeal and Slowing Down



On the evening of July 5 this year, only one of the three International Finance Center (IFC) buildings in Yeouido, Seoul was lit. The IFC was built according to the Korean government's ambitious plans to set up a global financial hub, yet the third building, containing 55 floors and which was completed in November last year, was left darkness with no company housed in it. The second building's occupancy rate still stands at just 38%, with most of the space in the building empty.

Furthermore, no major foreign financial companies befitting the name of IFC are to be found in any of the three build-

ings. "The international finance center in Hong Kong is extremely popular with global financial firms, as seen by the recent contract signed by Swiss bank UBS to extend the lease period until 2019," said a Seoul branch head of a foreign securities company who wished to remain anonymous, adding, "The IFC in Seoul, however, shows the current status of the financial industry of Korea, which is shunned by international investors."

## Foreign Financial Firms Rushing Out of Korea

Not only are foreign financial firms

refraining from entering Korea but also what few companies are already here are now leaving. For instance, HSBC closed 10 of its 11 branches and shut down the personal finance business here on July 5 this year, becoming the eighth foreign bank to leave the country since 2001. Prior to this, the Asahi Bank, Bank of Hawaii, California Union Bank, National Australia Bank, and ArabBank, etc., have moved out of Korea. According to the Financial Supervisory Service (FSS), the number of foreign banks doing business in Korea decreased from 46 to 39 between 1999 and 2012.

This exodus is not limited to the banking industry. Dutch insurer ING is currently selling its Korean office to Tong Yang Securities, while UK company Aveva is expected to dispose of its shares in Woori Aveva Life Insurance. Meanwhile, Goldman Sachs Asset Management last year announced its intention to leave in five years, while AIG has cancelled plans to set up its Asia-Pacific headquarters in Seoul.

The financial authorities are concerned that few foreign financial companies will participate in the privatization of Woori Financial Group, which is scheduled to start from the latter half of this year. "The competition is overheated here, while profitability is low and the government is choking the industry with excessive regulations," said another anonymous source, continuing, "Therefore, who will step in to acquire a local bank?"

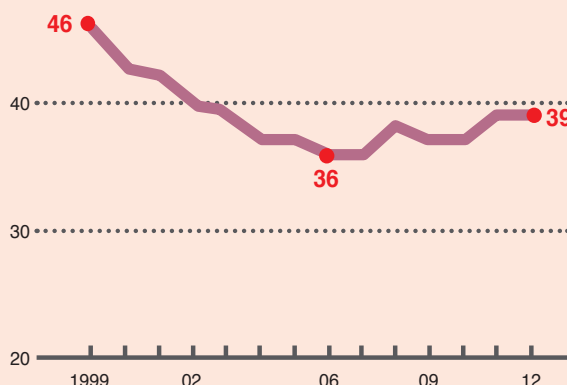
## Slim Chance of Profitability in Domestic Banking Sector

The biggest reason for the decreasing attraction is the slim chance of profits caused by the market's backwardness. Local banks are focusing on easy interest income, and thus becoming increasingly vulnerable as the interest rate drops. The government, on its part, has worsened the situation by focusing on the corporate social responsibility of banks since the recent global financial crisis. Korean banks' total net profits had reached 15 trillion won in 2007, but the sum fell to 8.7 trillion won last year.

Their low profitability is even more



Number of Foreign Banks in Korea



Source: Financial Supervisory Service

highlighted when compared to those of foreign banks. In 2012, the average return on equity (ROE) of 17 Korean banks was no more than 6.41%, while that of the four major banks in China -- Industrial and Commercial Bank, China Construction Bank, Agricultural Bank of China and Bank of China -- was as high as 21%. The ROE of the four leading American banks -- Wells Fargo, Bank of America, Citibank and JP Morgan Chase -- was 7.3% during the same period. "Global financial companies are streamlining themselves amid the recession and getting rid of less lucrative arms," former FSS vice chairman Joo Jae-seong explained, continuing, "Under the circumstances, their Korean branches are taking a direct hit."

Korea Institute of Finance researcher Seo Byeong-ho echoed this, saying, "The structure of the local financial industry is very dull and monotonous and the companies in it are showing no uniqueness." He went on, "Since their profits tend to be fluctuated by temporary causes such as economic cycles, foreign investors consider the Korean financial market to be less predictable but much riskier."

industry has also provided more and more real estate loans as their number one cash cow. Specifically, the assets in the industry soared from 890 trillion won (US\$827 billion) to 2.953 quadrillion won (US\$2.746 trillion) between 1998 and 2012.

However, this type of growth is losing steam nowadays. With the bubble burst in the property market, household debt amounting to 1.000 quadrillion won (US\$930 billion) is sending a serious warning signal. The trend of low growth is also deterring companies from making investments to slow down the growth of corporate financing. The Korean economy has remained below the potential growth rate for nine consecutive years since 2011. Consumers have tightened their purse strings due to massive debt, and an increasing number of economists are concerned over the very same deflation as seen in the Lost Two Decades of Japan.

The Korean government's economic growth rate forecast for this year is 2.6%, which is the fifth lowest since the 1970s. The thing is, the current stagnation has much to do with the aging population and decrease in the number

### Korean Financial Industry Restructuring Needed

For decades, banks and financial institutions in Korea have increased their assets at a rapid pace, thanks to the skyrocketing demand from the private and corporate sectors amid fast economic growth. The people have rushed to put their money in houses and buildings, believing in the myth that real estate prices never fall. The financial

of working-age citizens, whereas the past cases were derived from external shocks such as the Asian Financial Crisis in 1997, when the national economy recorded negative growth of 5.7%, the Second Oil Shock in 1980 (-1.9%), and the global financial crisis five years ago (-0.3%). Thus the recoveries could be made in relatively short periods of time.

### Business Paradigms Should Be Shifted

Loan-making cannot be a way for banks to survive such an era. Since the size of the national economy is limited, the demand for loans is unlikely to increase. The deposit market is going through drastic changes, too. In low interest rate times, people go for high-return products while trying even more to shun high-risk ones.

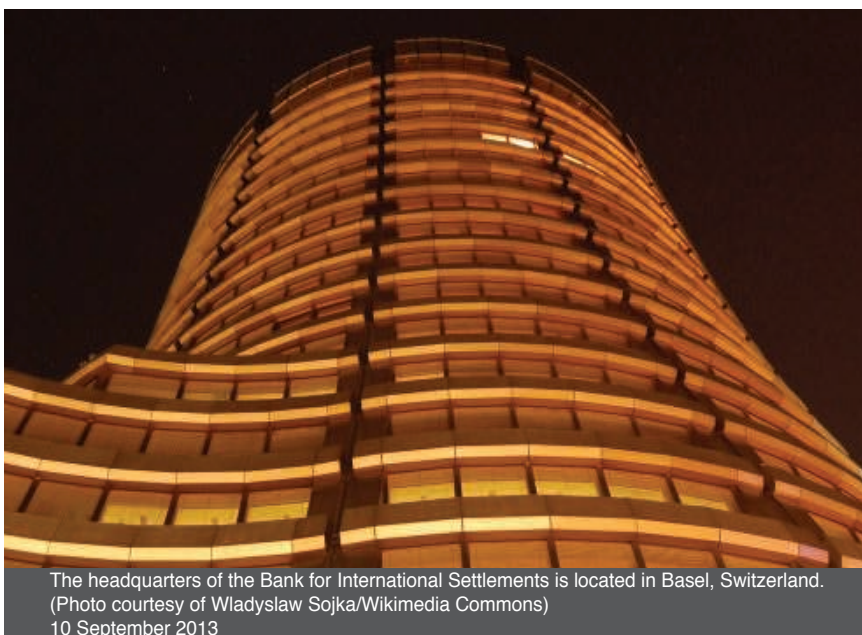
"Consumers will show an increasing demand for more types of financial products that can boost their assets effectively," said Kim Dong-seong, director at the Supervision and Coordination Department of the Financial Supervisory Service, adding, "In response, banks and financial institutions need to expand their high-quality asset management services, and it is investment in human resources that holds the key to it." Senior research analyst Koo Bon-seong at the Korea Institute of Finance echoed by saying, "At this critical juncture, banks have to convert many of their service models into financial consulting services." He explained, "To this end, they need to make more R&D investments in order to nurture experts in the fields of asset management, overseas market penetration and industrial development."

A private banking manager at a commercial bank added, "It is absolutely sure that the asset management market will continue its growth down the road but, at the same time, it is also true that local banks are experiencing a shortage of human resources capable of financial consulting and providing information on domestic and foreign investment products." ■



## PLUMMETING BIS RATES

# Expanding Capital More through Subordinated Security Bonds



The headquarters of the Bank for International Settlements is located in Basel, Switzerland.  
(Photo courtesy of Wladyslaw Sojka/Wikimedia Commons)  
10 September 2013

The equity capital rates of major domestic financial institutions, according to the Bank for International Settlements (BIS), have dropped below 13% for the first time in a year. This is because risk-weighted assets have increased. The financial industry will begin inspecting BIS rates of major financial institutions with the start of the enforced capital regulation BASEL III in December. Some financial companies and banks are already working on expanding their capital.

The Financial Supervisory Service announced on August 12 that the BIS capital adequacy ratio (Basel II) at the end of June was at 13.88%, a decline of 0.12% from 14.00% at the end of Q1.

The tier 1 capital ratio was at 10.97%, a decline of 0.03% from 11.00% at the end of last quarter. A high BIS ratio indicates strong financial stability. Tier 1 ratio excludes Tier II capital from the BIS ratio in order to evaluate the bank's realistic capital adequacy.

The Financial Supervisory Service (FSC) analyzed that this is because risk-weighted assets increased by 15.1 trillion won (US\$14.0 billion) in response to Q2 capital only increasing by 600 billion won (US\$557 million).

The FSC also said the connected BIS rate of a bank holding company at the end of June dropped to 12.95%, which is 0.16% lower than last quarter's 13.11%. This is the first time in 4 quarters (1 year) for the rate to have decreased and stayed

below 13% for 2 consecutive quarters.

The situation was similar for banks. The BIS ratio at Korean banks declined from 14.55% at the end of 2010 to 13.96% at the end of 2011. After a brief rebound to 14.30% at the end of 2012, it declined to 14% in Q1 and continued downwards to 13.88% in Q2.

Risk-weighted assets increased in large portions, while equity capital did not increase much.

Some financial companies have gone into emergency BIS rate management. BIS rates of the NongHyup (10.58%) and Hana (10.85%) financial groups are nearing level 1 (BIS rate 10%) in the evaluation of bank holding companies.

The reason that the BIS ratio of banks dropped is that the speed of equity capital growth is slower than the increasing speed of risk-weighted assets. Domestic banks have shown a reduction in their net profits from 1.6 trillion won (US\$1.45 billion) by the end of Q1 to 1 trillion won (US\$909 million) in Q2. The net interest margin (NIM) has continuously dropped since 2011 to 1.88% by the end of Q2, which is the lowest since 2009. In addition, the corporate rehabilitation proceedings (legal management) of construction companies and STX Pan Ocean Company are steadily increasing bad account costs.

## Financing More through Subordinated Security Bonds

As the BIS rates of most financial institutions decrease, efforts to expand capital, starting with banks, are continuing. In relation with this trend, subordinated security bonds, once pushed

aside by hybrid bonds, have once again become the preferred financing method for banks. In fact, these bonds are expected to increase in number as the Bank for International Settlements (BIS) affiliate Basel Committee on Banking Supervision (BCBS) will enforce its settlement regulations starting in December.

According to KIS bond evaluations on September 3, the size of banks' capital expansion through bonds has grown to 4.85 trillion won (US\$4.4 billion) this year. Of that, 1.55 trillion won (US\$1.41 billion) is new equity capital, and 3.3 trillion won (US\$3.0 billion) is subordinate security bonds.

The securities industry expected the number of subordinate security bonds to increase with the increased request to improve the equity capital ratios of domestic financial stock holdings.

In fact, the Industrial Bank of Korea and Korea Exchange Bank each issued 300 billion won (US\$272 million) with 10 year maturity terms. Hana Bank will issue 200 billion won (US\$182 million) with 10 year terms, Daegu Bank 100 billion won (US\$91 million) at 10 years, and Gwangju Bank 60 billion won (US\$54.5 million) at 7 years in subordinate security bonds. Also, Woori Finance Hold-

ings Company will issue 500 billion won (US\$455 million) in subordinate security bonds, while Kookmin Bank and Korea Development bank are also preparing to issue around 400 billion won (US\$363 million) and 500 billion won (US\$455 million) each.


What is causing banks to turn to subordinate security bonds rather than hybrid bonds? This mainly has to do with the fact that the number of insurance companies, which are the sources of demand, has reduced drastically with the accounting management of investments in hybrid bonds changing to equity securities from debit securities. In the past, when hybrid bonds were managed as debit securities, the danger coefficient remained around 2%. However, when managed as equity securities, the coefficient jumped to 12%, becoming a burden on the RBC ratio, which is the solvency ratio for insurance companies.

KDB Daewoo Securities researcher Kim Min-jung said, "Considering that banks have recently seen a decrease in profit and felt a burden in capital expansion, along with capital reduction due to the amortization of subordinated security bonds maturing under 5 years, it is most likely for the number of subordi-

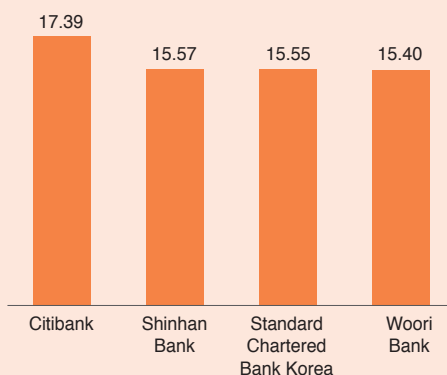
nate security bonds being issued will continue steadily despite the burdensome financial charges."

On top of the capital rate dropping due to risk-weighted assets and increased offers for shareholders, BASEL III will be applied. Then it will be more difficult to have subordinated security bonds as capital due to strengthened standards and conditions. Therefore, financial institutions are trying to secure capital now.

The Financial Supervisory Service announced that it will take into account the recent worsening of local bank profitability and the execution of Basel III capital requirements at the end of this year, which will make it difficult for banks to improve the capital adequacy ratio. The Financial Supervisory Service will guide the banks to better secure sufficient capital and manage adequate capital through strict risk management.

A FSS representative said, "Recently, with bank holding companies and banks suffering worsened profitability, and considering the difficulty of improving equity capital rates due to the BASEL III application in December, we will try our best to encourage strict management of capital adequacy." 

**June 2013 Bank for International Settlements (BIS) capital adequacy ratio (%)**



Source: Financial Supervisory Service.

## BIS Ratio by Bank

In 2Q 2013, the Bank for International Settlements (BIS) capital adequacy ratio declined in Korean banks. By bank, Shinhan Bank, Citibank, and Woori Bank were generally in good condition, while Industrial Bank of Korea (IBK), Korea Eximbank, and Korea Exchange Bank had low BIS ratios.

By bank, BIS ratios were relatively high at Citibank at 17.39%, Shinhan Bank at 15.57%, Standard Chartered Bank Korea at 15.55%, and Woori Bank at 15.40%. On the other hand, the ratios were relatively low at Korea Eximbank at 10.33%, IBK at 12.11%, and Korea Exchange Bank at 12.35%. The BIS ratio at Kookmin Bank was at 14.77%, Nonghyup Bank at 13.99%, Hanabank at 13.56%, and Korea Development Bank at 13.54%.

Among the banks, the BIS ratio at Korea Development Bank dropped most sharply, from 15.25% at the end of 2011 to 15.01% at the end of 2012. It fell again to 14.46% in Q1, 2013 and to 13.54% in Q2.

## FINANCIAL HOLDING COMPANIES

# Benefits of Major Financial Holding Companies Show Drastic Decreases

The net profit for the four major financial holding companies, KB, Woori, Hana, and Shinhan Financial Groups, has decreased drastically. The financial industry is expected to slow down in general. It is most likely for more branches to merge or shut down, while internal restructuring and business closure are also possible.

According to the industry, the total net profit of the four major financial holding companies from the first half of 2013 is 2.5262 trillion won (US\$2.3455 billion), which dropped 50.4% compared to last year's 5.1001 trillion won (US\$4.7431 billion). It is literally cut in half.

Woori Financial Group recorded 358.3 billion won (US\$333.2 million) in its net profit for the first two quarters of this year, which is 62.9% lower than last year's 967.9 billion won (US\$900.1 million). KB Financial Group's profit dropped 50.3% to 575 billion won (US\$534 million) when compared to last year's 1.1566 trillion won (US\$1.0739 billion).

Shinhan Financial Group did comparatively well, recording 1.363 trillion won (US\$1.2676 billion) in net profit, but still saw a decrease of 29%. Hana Financial Group's net profit dropped to 556.6

billion won (US\$517.6 million), which is 63.9% lower than last year's 1.5161 trillion won (US\$1.4100 billion). As for Hana Financial Group, it bought out Korea Exchange Bank last year and its Q1 net profit of 2012 (1.928 trillion won, US\$1.793 billion) included the additional business rights as a part of it.

Financial groups believe low interest rates are causing the decrease in profit, in addition to real estate and industrial business recessions.

Choi Soo-hyun, head of the Financial Supervisory Service, held a conference for the group chairmen on September 25 and said, "Due to internal and external conditions, our economy is now entering an unprecedented low growth, low interest generation which is causing negative impacts on growth and profit in the overall financial industry," and warned, "If profit reductions of financial companies continue long-term, they can damage the soundness of the companies."

The problem is that not a lot of change is expected for the second half of this year. Low interest rates are expected to continue, and domestic economic recovery is progressing rather slowly.

The financial authorities have also recognized this and requested the finan-

cial groups to enforce risk management and closure of branches with deficits, etc. Accordingly, some banks will shut down up to 80 branches sometime within the second half of the year.

Hana Bank is closing 25 bank sites, while Kookmin Bank will shut down 12 branches. NH Bank will relocate 4 of its branches while completely getting rid of 1 branch. Woori Bank merged 15 of its branches in the first two quarters of this year, and plans on merging 8 more in the latter two quarters. Citibank closed down 15 branches during the first half of this year, and will do the same for 5 more in the second half. Shinhan Bank closed 14 branches in the first half of this year.

The financial industry anticipates more closures as profits have dropped in half. One financial associate said, "Since the profit is continuously dropping this very moment, it is obvious that the second half of this year will not be any better, so more business closures are coming."

Thus, restructuring is becoming an issue. Since the number of branches is decreasing, some see it as inevitable for some manpower to be laid off, but heavy protest from the unions is expected as well. 日本

### Current Net Profit of Four Major Financial Holding Companies

Type	Woori Financial Group	KB Financial Group	Shinhan Financial Group	Hana Financial Group	Total
<b>Q1-Q2 2013 Net Profit</b>	358.3 billion won (62.9% decrease)	575 billion won (50.3% decrease)	1.363 trillion won (2% decrease)	556.6 billion won (63.6% decrease)	2.5262 trillion won (50.4% decrease)
<b>Q1-Q2 2012 Net Profit</b>	967.9 billion won	1.1566 trillion won	1.4595 trillion won	1.5161 trillion won	5.1001 trillion won



## SPEED-UP OF RESTRUCTURING

# Financial Holding Company Structure to Be Remodeled



Shin Jae-yoon, Chairman of Financial Services Commission

**F**inancial holding company structure is overhauled for the first time in 13 years. The current one began to take shape back in 2001, when Woori Bank was turned into the Woori Financial Group, and has been marked by friction between bank presidents and holding company chairmen. Under the circumstances, many have doubted its role in the development of the local financial industry.

The Financial Services Commission (FSC) and the Financial Supervisory Service (FSS) are planning to combine their structural improvement plans with each other to come up with measures by which local financial companies can maximize their profits. The idea is to fix the regulations limited to financial holding companies and ease the inter-company sale restrictions to boost the development of the sector.

## New Matrix System on the Horizon

The FSC announced on August 11 that it is considering reviewing the role of such companies and their performance by setting up a task force. The

watchdog has already commissioned a study into profit improvement and performance evaluation, and the Korea Institute of Finance (KIF) is going to submit a survey report to it by the end of September. Then, the FSC will mull over various reform measures based on the report, including a revision to the Bank Holding Act, and include them in the finance industry vision that is prepared by FSC Chairman Shin Je-yoon.

“The relations between holding companies and their subsidiaries have had great influence upon their profits and corporate governance structure,” said an official at the organization, adding, “We will guide them to reform their business practices for the sound and harmonious development of each holding company.”

In this context, the commission divides the role of such companies into manager and strategic advisor before seeking the direction which is more suitable for those corporations in Korea. “In principle, a holding company is supposed to create business strategies for the joint development of its affiliates while being in charge of financial support such as capital increase and internal control. But many holding companies in Korea have been swayed by their banks,” said the FSC. It went on, “We will look into which is more appropriate between limiting the role of holding companies to financial support with the banks in charge of strategy establishment, and giving more rights to the former.”

At the same time, it is going to check if the holding company executives holding the same positions in the subsidiaries are keeping a bal-

ance between their responsibilities and authorities. In the current matrix system, a holding company executive member heading a business unit automatically assumes a high position in the affiliate.

The financial authorities are considering repealing the business regulations between financial businesses, too. Various strategies and products are expected to be available as a barrier between the affiliates of holding companies is broken down.

The measures share the same goal with the finance industry vision. Their purpose is to seek measures for joint prosperity between not just holding companies and subsidiaries but also subsidiaries themselves for the sake of profit improvement.

“In the case of the Citigroup, the overseas corporations are split into intermediate holding companies, sub-subsidiaries, etc.” the FSC explained, continuing, “We will examine the introduction of such a system in an attempt to help local financial firms making their way abroad.”

## Will the System Go to Private Banking Integrating Banking and Securities?

Keen attention is being paid to the discussion of the introduction of universal banking and discretionary investment business to the banking sector, which was about to be allowed back in 2007, as banks are focusing on private banking as their new source of profit.

These days, local banks are expecting that new business opportunities will be given at this time, with the government looking favorably on it in an



attempt to prepare a new vision for the financial industry. Some experts, in the meantime, are saying that universal banking, which can be defined as the total management of customer assets in the joint framework of banking, securities, and insurance, is a better option than discretionary investment.

## Discretionary Investment Business or Universal Banking?

Banking sector insiders are making a strong request for the approval of the discretionary investment business, as asset management is planned to grow as a profit source of the private banking industry. The term of discretionary investment business means allowing customers to leave their financial assets to bank discretion. Local securities firms and insurers are engaged in the business now.

The Financial Services Commission (FSC) had a second discussion session on September 2 with working-level private banking managers, following the first held in late July. They insisted more strongly that the discretionary investment business be allowed in the banking sector. It is one of the traditional businesses of stock firms and can be a tool for private bankers to

diversify their customers' investment portfolios. Private bankers are banned from making this type of investment for now, though.

The FSC, on its part, also agrees with the opinion because the banks need to increase their non-interest income such as banking fees rather than interest income. However, it is taking a cautious stance, since interest is intertwined with related parties like brokerage firms.


It is in this context that some experts are suggesting universal banking as an alternative to discretionary investment. It was mentioned during the discussion session on September 2, too. Once it is adopted, the government does not have to worry about whether to allow discretionary investment in the banking industry, since each financial company can provide comprehensive private banking services.

At present, major global investment banks such as Barclays and JPMorgan Chase are run on a universal banking basis, and Korean banks are expected to take a page from their book eventually. Still, the government is refraining from making a comment, as controversies have been raised about universal banking abroad. Former Citigroup CEO Sandy

Weill has recently argued that the company be divided into commercial and investment banks.

## Total Private Banking in Holding company Framework?

Financial industry experts are predicting that the private banking businesses of banks and securities firms will be integrated in a holding company framework in the end, as the FSC's discussions about the improvement of the system go on. If the commission gives a green light to bank discretionary investment, the private banking business of banks and stock firms can be merged with each other as an asset management unit in the framework of a single holding company.

“Private banking is not limited to the management of individual customers’ assets, but also covers the idle properties and overseas assets of major corporations and institutional investors,” said a local private banking manager, adding, “With Korean banks having already adopted the holding company structure, it is expected that the private banking of the banking and securities divisions will be combined with each other to form a new profit creation model.” 

## FINANCIAL SUPERVISORY SYSTEM

## Raising Concerns of Overregulation



The response by the financial industry and National Assembly regarding the proposal to reorganize the financial supervisory system announced by the Financial Supervisory Service (FSS) on July 23 has not been admirable. They criticize that the act of maintaining the Financial Services Commission (FSC) while dividing the FSS and Consumer Financial Protection Bureau (CFPB) shows no clear purposes and will have no actual benefit.

In particular, as seen from previous cases, the new CFPB and the weakened FSS may overuse regulations in order to show off their respective existence to each other.

Most of all, both the ruling and opposition parties criticize that the FSC has not been restructured. They claim the FSC, which was originally in charge of rearing the financial industry, increased its power by taking over the authority for both financial supervising and consumer protection.

As a result, the opposition party is pushing for the role of establishing financial policies to be taken away from the FSC and given to the Ministry of Strategy and Finance, effectively allowing the FSC to have only financial supervising authority.

**Concerns over Overlapping and Blind Spots**

Currently, financial companies have masters

such as the FSC, FSS and the Fair Trade Commission (FTC). Furthermore, they must sometimes pay attention to the Ministry of Strategy and Finance and even the Board of Audit and Inspection. Under such circumstances, the possibility is getting bigger that the CFPB may end up becoming another monstrous master.

According to the reorganization plan, consumer protection will be transferred entirely to the CFPB, while the auditing of financial companies will be assigned case-by-case by either the FSS or CFPB.

The problem is that it is difficult to differentiate the functions of the FSS and CFPB. For instance, the CFPB is in charge of regulating lenders' businesses, yet the FSS is responsible for revising related policies. The auditing process for the regulations and regulation revisions can be done by either organization or both.

Up to now, the FSS has made its regulation revisions internally by sending civil complaints collected by the CFPB to the bureau of inspection services in the FSS. However, the two organizations must endure such confusion for the time being. One FSC official said, "The two organizations can manage to decide for themselves how to divide the roles, but they will face chaos at first."

Financial companies also seem to be at a loss. A vice president of a commercial bank

stated, "An inspection agency should have the supervising power to secure a consistent regulation, I don't understand why these functions have been divided."

The FSC suggested that the problem be solved through cooperation between the two organizations. According to the FSC, unilateral audits will be minimized. As for imposing sanctions on financial companies, the decision will be made through the Sanctions Deliberation Committee in which both organizations participate, while standards are also to be established jointly. An official at the National Assembly State Affairs Committee stated, "Even in urgent times, such as the financial crisis in 2009, the Ministry of Strategy and Finance, FSC, FSS and other related organizations did not want to share information with each other," adding, "It is questionable whether the FSS and CFPB can really cooperate to the extent that they share key information."

**Even Ruling Party Tilting Its Head on Reorganization Plan**

The FSC expects the National Assembly will pass the draft act to reorganize financial supervising system as early as this year after its deliberation in September. As a result, the CFPB could then be launched during the first half of next year.

However, opposition parties, including the Democratic Party, are strongly against the draft and the ruling party is not likely to go ahead with it against such opposition.

Both ruling and opposition parties have pointed out that the plan is missing a restructuring plan for the FSC. An official of the ruling Saenuri Party said, "The main reason for the savings bank incident is that FSC did not divide its policy function to promote the financial industry from the supervising function oriented to supervising and auditing," adding, "The draft contains wrong content and contains no fundamental solution for this problem." However, the ruling party is not in a position to simply oppose a draft supported by the President. **BA**



## OVERSEAS FINANCIAL BUSINESS

# Why Is Korea's Financial Industry Falling Behind in Overseas Expansion?

In July 2002, KB Kookmin Bank ranked 70th in the Top 1000 World Banks list compiled by The Banker. This was based on an asset size of US\$119.45 billion at the end of 2001. After the old Kookmin Bank and Housing & Commercial Bank merged, it became the first Korean bank to enter the Top 100 list.

Eleven years later, at end of 2012, KB Financial Group (Kookmin Bank) has dropped to 88th place by asset size. It is still ranked 68th by tier 1 capital, but not much has changed since ten years ago.

The Korean financial industry has fallen behind in international market competitiveness. Experts point out that this result is a combination of Korean banks' fundamental limitations and the financial supervisory authorities who have focused on short-term issues without seeing the big picture. Financial companies have enjoyed running the interest business at home, while neglecting the exploration of foreign markets.

Why can't Korea raise a global corporation such as Samsung Electronics and Hyundai Motor in the financial industry? The answer is simple. The financial industry is the most regulated industry anywhere in the world. Not only are the financially-advanced US and EU highly regulated, even emerging economies are building walls to regulate the financial industry.

China has introduced strict loan-deposit ratio regulations to restrict the growth of foreign financial companies. Countries such as Indonesia and Vietnam have put a cap on the amount of stock a foreign corporation can own, and are looking to fortify these regulations. In particular, banks can


serve as a lifeline to the country's industry and are not up for sale unless in serious financial crisis. Korea First Bank and Korea Exchange Bank were sold to foreign capital only at the peak of the 1997 financial crisis. As for Citigroup, Citibank, which is a minor bank in Korea, is actually running the third-largest operation in the domestic market for its global retail banking, following those in the US and Mexico. This shows how difficult it is for a bank to run operations abroad.

Korean banks have relatively low credit ratings compared to American or British banks. It is usually difficult for individual bank credit ratings to surpass country credit ratings. Due to geopolitical risks, Korea tends to be relatively undervalued. The financial crisis in Europe has changed things, but fundamentally Korean banks have higher foreign currency procurement interest compared to the US or Japan. This is the reason that Korean banks fall behind in project financing (PF) abroad.

Korean banks also have limited networks abroad. Korea Exchange Bank, which has the highest number of foreign branches among domestic banks, has 54 branches in 23 countries. HSBC in comparison has 6,600 branches in 80 countries in Europe, Asia, Central and South America, Africa, and the Middle East. Citigroup has branches in 160

countries, and its profits in Latin America and Asia accounted for 21% of total profits each, while profits in Europe, the Middle East, and Africa accounted for 16%. International corporations such as Samsung and Hyundai that export and sell across the globe can find dealing with domestic banks troublesome. Furthermore, Korean banks have limited experience in foreign investment, making it even harder for corporations to find financial companies to invest in power plants or major construction PF in Southeast Asia or South America.

Entering foreign markets is indeed difficult for Korean banks. Nevertheless, experts point out that neglecting possibilities altogether is not the optimal solution. Financial supervisory authorities that are meant to build the industry have only focused on short-term issues without seeing the big picture for expansion abroad. Financial Services Commission Chairman Shin Je-yoon has promised a way to lead the Korean wave in the financial industry, but many point out that his proposals do not differ much from other efforts in the past.

Without a big picture by the authorities, discussions such as the effectiveness of financial holding groups and road map for the Korean banking industry have lost priority. In effect, financial companies are not actively seeking business abroad with a long-term perspective. 

## Korean banks in world bank rankings

Ranking (by asset size)	Bank	Ranking (by asset size)	Bank
79	Woori	68	KB
86	Shinhan	69	KDB
87	Hana	72	Woori
88	KB	73	Shinhan
95	Nonghyup	81	Hana
111	KDB	83	Nonghyup

\* Based on end of 2012 data.

\* Source: The Banker

# KOREA



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## THE KINGDOM OF SAUDI ARABIA

# Congratulatory Message

## Celebrating the 83rd National Day of the Kingdom of Saudi Arabia



His Majesty King Abdullah Bin Abdul-Aziz  
AL SAUD,  
Custodian of the Two Holy Mosques



the remarkable achievements and successes in all fields, which has been reflected in the continued rise of living standards, improvements in quality of life, comprehensive construction and industrial renaissance, as well as the advanced economic and social services throughout the country. These achievements are the clear testimony on the effectiveness of the developmental approach that has been adopted by the Kingdom; an approach that combines scientific planning, targeted rationalization, and continued support for private sector within the framework of economic freedom and individual initiative.

Over more than three decades, the Kingdom of Saudi Arabia has achieved remarkable advances in its structural and socioeconomic fields, both at the macro and micro levels. The Saudi Arabian economy has now gained enormous strength and has increased its ability to well adapt to the changes and embrace developments, capable of withstanding global economic fluctuations.

Thanks to the modernization of institution and administration as well as the development and facilitation

of regulations and procedures, the Kingdom has witnessed a significant improvement in its business environment and, thereby, enhanced its attractiveness to foreign investors. The volume of the foreign direct investment in Saudi Arabia has increased markedly, placing the country at the forefront of the most attractive investment destination in the Middle East.

Focusing first on the people of Saudi Arabia as the ultimate goal of the country's development, the human resources policy has gained great importance and has been in accord with the Kingdom's renaissance in its comprehensive development. As a result, education and training have grown to the unprecedented level, owing to the keenness of the Government to provide all the requirements needed for human resource development. Special attention and extensive interests on the health of citizens have been coincided with the attention to education and training.

Remarkably, when the development process of the Kingdom is examined, there, indeed, are clear similarities in some important aspects between the early days of Saudi Arabia-in the

This year's anniversary of the National Day of the Kingdom of Saudi Arabia comes at a time when the comprehensive development renaissance, based on the foundation laid by the Founder His Majesty King Abdulaziz Bin Abdul Rahman Al Saud, continues apace. Building on the intellectual, institutional, and management foundations established by the Founder King, and guided by his ideas and practices in development planning and economic management, the sons and successors of the Founding King have continued the efforts that led to



reign of the Founder King-and the current period. The Founder King adopted modern methods for developing agriculture and water resources, management of oil exploration, building transportation and communication networks, provision of educational services and healthcare, and building the institutions of the country with national and foreign expertise while dispatching Saudis abroad to be specialized in various fields. Following the footsteps of the Founder King, the Kingdom of Saudi Arabia has been, and is, eager to expand the use of science and technology in all productive and service fields, and to transfer knowledge and advanced technology, through trade and foreign direct investment, as well as experts and specialists from advanced countries. There are an increasing number of Saudis sent overseas on scholarships to acquire modern knowledge and expertise. In furtherance of this trend, the Kingdom has made great strides and has begun to move towards carrying out mega-projects, in its quest to lay the foundations of a knowledge economy and an information society.

More than fifty years have passed since the establishment of diplomatic relations between the Kingdom of Saudi Arabia and the Republic of Korea in 1962. Since then, the relations between the two countries are witnessing a qualitative leap and amazing developments that have extended to all fields; political, economic, cultural, educational, military, health and others. Such developments are responsive to the policies and principles stipulated in mutual agreements, talks, and mutual visits by officials from the Kingdom of Saudi Arabia and the Republic of Korea. Such efforts made the two countries' relations one of the most important international relations within half a century. The mutual relations have been characterized by sincerity, honesty and commitment to all that have been agreed upon, without seeing problems or misunderstanding



Ambassador of the Kingdom of Saudi Arabia H.E. Ahmad Y. Al Barrak

when carrying out these promises and agreements.

With the establishment of the Saudi-Korea diplomatic ties in 1962, the Embassy of Saudi Arabia opened in Seoul in 1974 as the first Arab Embassy in Korea. The Saudi-Korea bilateral relations in the early stages had witnessed a number of achievements, with the participation of Korean experts and manpower in the Kingdom to modernize its infrastructure, mainly with implementation of various projects for roads, public buildings, water desalination, power generation, information technology and many others. This was, indeed, quite enough to make Korea more qualified – thanks to its companies, experts, and well trained manpower – and thereby to win a significant share of large-scale projects carried out in the Kingdom. It also paved the way to conclude more deals between the two countries to carry out such projects, based on the needs of the Kingdom and the requirements of its development. In other words, the Saudi-Korean relations have been “full of singularity,” as described by His Excellency Former President Lee Myung-bak during a meeting with Saudi businessmen last year in Riyadh.


Recent economic and trade data well confirm that the size of trade between the Kingdom and Korea has reached fifty billion dollars for the year 2012. The Kingdom of Saudi Arabia is the fourth largest trading partner to

the Republic of Korea, while Korea is Saudi's fifth largest one. There are more than 129 joint projects, where the Kingdom has recorded the highest rate for contracts for construction projects with the value of US\$119 billion till May 2013.

Those who review the economies as well as the potentials and the global economic status of the Kingdom of Saudi Arabia and the Republic of Korea will not be surprised at the solid Saudi-Korean partnership of over a half a century, and their capability to create a productive environment as witnessed by mutual cooperation between the two countries, and how they became the members of G20, the group of the richest economies in the world. The friendship between the two countries, the similarities in policies and chances of the two countries' available integration enabled both governments to draw a road map of their bilateral relations with specifications appropriate for both sides, and help in making a larger stage of distinguished partnership by enhancing the yearly value added of such relationship.

A number of agreements and committees – mainly, the Saudi-Korea Joint Committee – that connect both countries assure the two countries to build a genuine partnership that does not exclude any activities, which leads the bilateral cooperation that is comprehensive and responsive to the interest of the peoples of the Kingdom of Saudi Arabia and the Republic of Korea.

The bilateral relations in the political domain have also witnessed similarities in views regarding their positions towards the global issues and developments over the last 50 years.

Such achievements shows the assurance and the willingness of the Kingdom of Saudi Arabia and the Republic of Korea to sustain and support such relationship with the desire of sides to develop mutual relations in line with the principle of mutual benefits, interests, and common policies that combine both countries. 

## OVERVIEW ON SAUDI ARABIA

# A Nation on the Move

## Saudi Arabia Growing to a Dynamic and Robust Economy, Serving as One of the World's Most Demanding Markets

The Kingdom of Saudi Arabia, the birthplace of Islam and home to Islam's two holiest shrines in Mecca and Medina, has long been recognized as a powerhouse of the Middle East. Now's it's poised to become one of the world's top 10 most competitive nations and one of the most lucrative markets for strategic investment.

Since it was founded by His Majesty King Abdul-Aziz bin Abdurrahman Al-Saud, the Kingdom of Saudi Arabia has made remarkable achievements in all areas of development; economic, social, political and cultural. The robust and consistent base provided by his Majesty served as a starting point for the development process and ensured continuity for more than a century, leading to a comprehensive development renaissance that has contributed to upgrading economic growth, raising living standards, improving quality of life, and providing work opportunities for citizens.

These advances have been based on quantitative expansion and qualitative enhancement of educational services, training, healthcare, social services, infrastructure, communications, and municipal services; all within the framework of a genuine partnership between the public and private sectors working together for the delivery of programs and plans, designed to effect balanced and sustainable development across the nation.

### Dynamic Economy

The performances of both Saudi Arabia's economy have exceeded world growth while Saudi's non-oil sector has



Faisalya Tower in Riyadh, the capital of the Kingdom, is hosting the most important of gulf, Arab and International conferences on a regular basis.

delivered accelerating growth rates as the economy diversifies.

Encouraged by robust GDP growth and macroeconomic stability, consumer confidence is well above the regional average. Growing private credit and increased public expenditures on infrastructure and other projects provide a broad basis for strong and sustained growth of the Kingdom. The Kingdom itself has never been more committed to supporting economic growth. Robust growth in government revenues and current account is supporting double-digit increases in government expenditures on social, infrastructure, and other investment projects. Perhaps even more crucial in the long term, an increasingly deregulated and competitive economic environment is supporting an explosion of business formation as the private sector

takes an increasingly prominent role in the economy.

The Kingdom of Saudi Arabia is undergoing an exciting transformation. One of the most enterprising nations in the Middle East, Saudi's vast natural energy combined with the long-term vision and strategic planning of its rulers has helped to create today's stable, robust economy. Now, Saudi is looking to the future with an ambitious program of accelerated growth and development that will position it firmly as a new global force.

### Building a Nation of Sustainable Prosperity

Saudi Arabia, which becomes a member of G20, is now preparing a future that is more inclusive, expansive, sustainable and integrated on

both economic and social levels, which revolves around investment. Saudi's focused investment will deliver new communications infrastructures, new transport routes, state of the art industrial complexes, dynamic training opportunities and a commitment to greater business efficiencies and many more, helping to build a nation of sustainable prosperity.

The Kingdom is investing massively to enhance its value proposition to foreign businesses by providing competitive infrastructure and implementing reform policies. At the center of this driving is His Majesty King Abdullah bin AbdulAziz Al Saud, Custodian of the Two Holy Mosques, who has directed the Saudi government to become one of the world's Top 10 most competitive economies. In pursuit of this goal, the bodies of government have initiated a multi-faceted reform strategy that has made the Kingdom one of the easiest places in the world to do business.

## Huge Market, Attractive Environment for Investments

Through such reforms and investments, Saudi Arabia's rapid improvements in business environment have made the country an increasingly attractive destination for foreign investment.

The World Investment Report measured Saudi Arabia's FDI inflows to be the 12th largest in the world and the highest amount in the Middle East North Africa (MENA) region.

As the region's largest economy and the world's 19th largest, the sheer size of the market that Saudi-based projects serve is "a competitive advantage, allowing Saudi businesses to benefit from economies of scale." With excellent access to Saudi and other MENA markets, as well as the advanced and emerging economies of nearby Europe and Asia, the market exposure for Saudi-based projects is not only vast but also highly diversified.

In addition, Saudi Arabia's well established, competitive and efficient domestic industries from energy and chemicals to

transportation provide exceptional opportunities for investors. Investors in Saudi Arabia now enjoy increasingly well-developed business clusters and value chains that set the nation apart from its neighbors and from other emerging economies. The World Economic Forum ranks the Kingdom 26th for both Value Chain Breadth and Production Process Sophistication.

Trying to make the nation a global capital of energy and a transport and logistical hub between the east and the west, Saudi Arabia is now transforming its industry into knowledge-based one including ICT, healthcare, life science, education.

In particular, the Kingdom is embarking on a historic ICT investment program that will make the country a regional technology landmark. With over 27 million consumers and a number of global enterprises, Saudi Arabia is the largest ICT market by far in the Middle East. The Saudi Arabian telecommunications and information technology industries represent over 55% and 51% of the total Middle East markets, respectively.

While many of the world's ICT markets are maturing, the Saudi Arabian market remains substantially under-developed by global standards and remains on a rapid growth trajectory. ICT spending has grown at over 10% per year since 2001 to reach US\$7.3 billion in 2006. Liberalization is occurring across the telecom industry, driving increases in competition, service levels, and usage. Numerous Saudi Arabian IT industries show clear signs of rapid growth, driven by the committed presence of major multinationals, and by the expanding skills and confidence of local companies.

Saudi Arabia has embarked on a twenty-year ICT plan that will support widespread technology and telecommunications adoption across the Kingdom's households and enterprises. A combination of deregulation and substantial public investments will create attractive investment opportunities for the private sector. Recent examples of such participation


include a US\$100 million investment by a venture capital firm, one of Saudi-based technology companies.

In particular, Saudi Arabia's unique access to energy makes it an attractive location for a range of activities across the ICT value chain. ICT-enabled services providers (such as data centers) will be able to leverage Saudi Arabia's unique access to low-cost power and state-of-the-art communications infrastructure to efficiently service global customers. Equipment and component production are also highly energy-intensive and require significant use of petroleum derivatives such as chemicals and plastics. Combined with the Kingdom's attractive setup incentives, these advantages translate into considerable cost savings for hardware manufacturing and assembly activities. Software and other content providers also enjoy a secure environment for commercialization, thanks to significant progress on



Mosque in Mecca, the holiest place in the entire Muslim world, welcomes some two million Muslims a year, making up one of the five pillars of Islam.

intellectual property rights laws by the Ministry of Commerce as well as the Communications and Information Technology Commission (CITC).

In short, Saudi Arabia's massive public investments and reforms such as WTO accession, deregulation, privatization, private-sector promotion, significant investment incentives have been placing a strong foundation for the Islamic kingdom to be a global force, while providing opportunities for foreign investors as well as for local businesses. 



## COMPOSITE LEADING INDICATOR

# On the Rise for 4th Straight Month in Anticipation of Economic Recovery



In July, the production of Korea's mining industry, which reflects the manufacturing economy, inched down after showing an upward trend in June. However, Korea's Composite Leading Indicator (CLI), designed to anticipate turning points in economic activity relative to trends, gave some hope for an economic turnaround owing to its increase for the fourth consecutive month.

According to the Industrial Activities of July 2013, published by Statistics Korea on August 30, the production in mining edged down 0.1% compared to the previous month due to a slack in the manufacturing sector. The mining industry saw negative growth in production in January-March, a 0.5% increase in April, a 0.2% decrease in May, and then a 0.6% rise in June. The data shows that the production continues to fluctuate amid an overall downward trend.

Meanwhile, the service industry witnessed a 0.2% production decrease. But the ratios of construction and public administration were up 0.8% and 5.9%, respectively, contributing to a 0.3% monthly gain in the entire industry.

The Cyclical Component of Composite Coincident Index, which reflects current economic situations, remained unchanged from the previous month. The Cyclical Component of Composite Leading Index, which predicts a turning point in business cycles, gained 0.3

points compared to last month, a continuing upward trend for the fourth month in a row.

The manufacturing industry skidded along with a +0.2% in production. By item, the semiconductor equipment and materials industry posted a 7.5% increase in output from the previous month. And yet, compared to June, auto production, the output of machinery and equipment manufacturing, and oil refinery output saw 6.4%, 5.5%, and 3.9% decreases each.

An increase in the production of semiconductors came as new models of smartphones, such as the LG Optimus G2, the Samsung Galaxy Note 3, and Apple's next-generation iPhone 5S, were slated for release in August-September.

In the meantime, automobile production was down. GM Korea Company suffered a 47.8% reduction in production compared with a month ago, since union members staged a partial strike in July. In addition, the auto industry did not fully operate because of summer break.

Moreover, month-on-month machinery and equipment production declined in July on account of less manufactured system air conditioners, which stems from a base effect attributable to seasonal factors.

Park Seong-dong, the director general of the economic statistics bureau at Statistics Korea, said, "It seems that some auto makers' partial strikes and a reduction in the production of system air conditioners have made an enormous influence on decreased mining output."

Semiconductors, automobiles, machinery, and equipment saw a change in production, with a 1.05% increase, a 0.74% increase, and a 0.46% decrease, respectively.

The Producer's Inventory Index in July rose 3.6% from the previous month. The semiconductor equipment and materials industry, the machinery and equipment industry, and the primary metals industry witnessed 9.6%, 7.4%, and 4.2% increases each in inventory.


The proportion of inventory to shipments in the manufacturing industry was 117.8%, up 5.6% compared to last month.

The recursive graph of inventory to shipment in the manufacturing sector, which assesses a change in business cycles, shows a reduction in shipments. Shipments dipped from -1.3% in June to -1.5% in July, in tandem with a rise in inventory from 2.9% in June to 6.7% in July.

The Operation Ratio Index for the manufacturing industry fell 1.6% compared to June. The auto sector and the machinery and equipment industry contributed to the overall drop with -11.7% and -6.3% each. The index decreased 3.0% year-on-year, with a contraction of 7.7% for the auto sector and 6.4% for the machinery and equipment industry.

The Index of Services in July dropped 0.2% compared with the previous month. After tax exemptions for property acquisition were terminated, the housing transaction volume plunged by 30% in July compared to the same period last year. In particular, July activity in property rentals nosedived to -9.8%. The field of Finance & Insurance also saw a decline in activity compared to June due to a reduction in transaction costs for stocks.

The Equipment Investment Index in July fell 2.5% compared to June, and 8.3% compared with the same period the previous year. Nevertheless, with the investment in civil engineering rising, construction witnessed an increase in investment.

In fact, the investment in construction in July gained 0.8% from the previous month, a 13.5% increase compared with the same period in 2012, thanks to a positive trend in civil engineering. The value of construction orders received in July at current prices shrank by 15.3% compared to the same period last year. The trend is attributable to a decrease in orders for factories, power plants, and roads. 

## NATIONAL FISCAL STATUS

## Korea at Its Worst Point



Korea's National Assembly meeting.

The Ministry of Strategy and Finance announced on August 30 that the fiscal account deficit amounted to 46.2 trillion won (US\$41.9 billion) in the first half of this year, which is much more severe than during the financial crisis in 2008. Although a fiscal deficit is not an entirely bad thing, the amount is too high. The surge can be attributed to the current economic recession, which has resulted in a low tax yield and the fiscal spending that has skyrocketed for welfare expenditure.


The size of the half-year deficit is almost equal to the one-year amount of corporate tax income. This means that Korea cannot avoid a large amount of red ink, no matter how frugal it remains during the rest of this year. The government estimated this year's fiscal deficit

at 23 trillion won (US\$20 billion) back in May, when it came up with a revised supplementary budget of 17 trillion won (US\$15.5 billion). At that time, it predicted that the economic growth rate would be close to 4% and it would be able to collect taxes as planned. However, things are moving in the opposite direction now.

One of the greatest concerns is that the government could face a fiscal cliff at the end of this year as spending increases with the ceiling already fixed. Another revised supplementary budget is unlikely to be welcomed by the general public, either. In the end, it has no option but to slow down the execution of public finance, but this leads to economic contraction. In short, it is between a rock and a hard place now.

There are more problems. If it lays its

hands on the budget reserves amounting to five to six trillion won a year to dodge the fiscal cliff, it will have no resources available for next year. If the national economy fails to recover next year, it has to resort to early fiscal execution in the first half of 2014 and another revised supplementary budget during the latter half to repeat the vicious cycle. This is the very reason why the Korean government has recorded fiscal deficits for six years in a row since 2008.

It is planning to bolster its fiscal soundness by means of the National Fiscal Management Plan for 2013 to 2017 that is going to be finalized soon. It would be well-advised to drastically reform the 135 trillion won (US\$122 billion) plan to improve the national fiscal conditions. 

## SIGNALS FROM FED

# Reduction of Quantitative Easing is Looming Large



Ben Bernanke, chairman of the Federal Reserve.

Financial market experts are paying keen attention with the reduction of quantitative easing (QE) around the corner. The won-dollar exchange rate plunged while the stock price index soared on September 9 in Korea, which is considered to be safer than other emerging economies.

The Fed is expected to come up with specific measures for the discontinuation of QE at the regular FOMC meeting scheduled for September 17 and 18. Under the circumstances, market participants are focusing on forward guidance and how large the size will be. In fact, many of them have anticipated for a while that its QE would be stopped this month. The sensitive response is because the global financial market could take totally different shape depending on the announcement of the Fed.

Recently, it has been announced that the US unemployment rate for August this year was 7.3%, the lowest ever since December 2008. Though the FOMC meeting is likely to result in a contractionary monetary policy, the size is forecast to be cut by approximately US\$5 billion to between US\$10 billion and US\$15 billion a month.

International experts are explaining that the reduction of QE has been a done deal in the market since the remarks made by Fed chair-

man Ben Bernanke in May. They have two scenarios now. One is that the Fed will gradually slow down the switch so that financial markets can pace themselves. However, the story is completely different if the policy is changed at a rapid pace.

"In the case of the former, stock price indices can soar, while risky assets get less shock than expected, but the latter is likely to lead to an interest rate hike while affecting the stock market and real economy," said a forex market insider, continuing, "The possibility of the Fed opting for the latter scenario is close to zero."

In the meantime, the Korean market is regarded as a relatively safe place thanks to its trade account surplus and record-high foreign exchange reserves. "Korea and Taiwan are benefiting from the recovery of the US economy led by its IT sector as of late," the Bank of Korea commented, adding, "In particular, the slowdown of foreign fund inflow into Korea since the third QE, caused by the North Korea issues and Japan's weak yen policy, has turned out to be favorable for it in retrospect."

Capital flow is quite stable, too. According to the Financial Supervisory Service, foreign investors bought 1.524 trillion won (US\$1.401 billion) net of Korean stocks in August alone. Although they posted a net sales of 2.06 trillion won (US\$1.892 billion) in the bond market for the first time in seven months, the net purchase amount reached 1.6 trillion won (US\$1.470 billion) if the 3.1 trillion won (US\$2.846 bil-

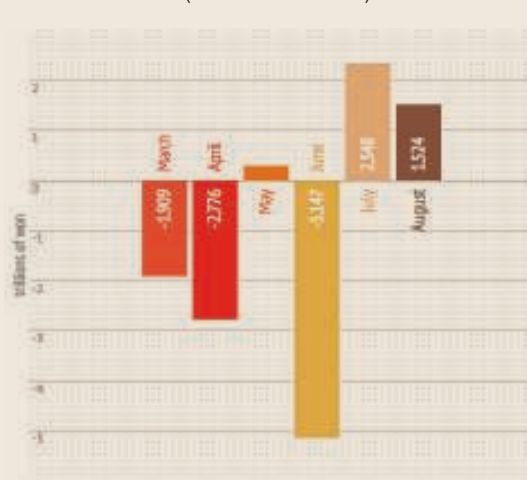
lion) worth of currency control bonds coming to maturity are excluded. "Few hedge funds, which constitute a sort of channel for the inflow of hot money, are found on the capital flow side, but public funds and central banks are continuing with their investments," said a market expert, adding, "There is no sign yet that the funds which have left emerging countries like India and Indonesia have veered to Korea."

Korea is not a perfectly safe zone, though. "We can't rule out the possibility of even greater market fluctuations following the differentiation," said a high-ranking government official. He went on, "Anyway, we can't completely avoid the hit, but what matters for us is to brace ourselves to provide against it."

With the reduction of QE on the horizon, all eyes are on the interest rate decision to be made by the Monetary Policy Committee (MPC) of the Bank of Korea. It is almost sure that the benchmark rate will be frozen at an MPC meeting scheduled for September 12, and an upward adjustment is not expected to be made until June next year.

Therefore, the current key rate is likely to be maintained until March 2014, when the tenure of incumbent Bank of Korea governor Kim Choong-soo comes to an end. Other variables include the appointment of a new governor, which has to go through confirmation hearings, and the time taken for the new governor to get a grasp of his or her duties. **BK**

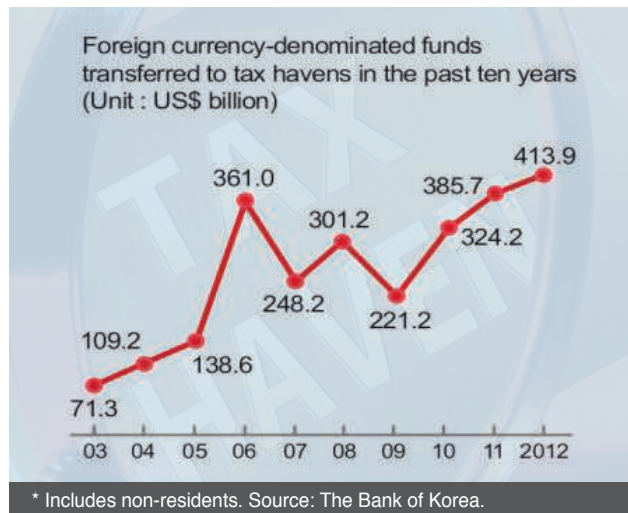
Net Purchase of Korean Stocks by Foreign Investors  
(unit: 100 million won)





## HIDDEN MONEY

# 5.6 Quadrillion Won Sent to Tax Havens in Past Ten Years



Over 5.6 quadrillion won (US\$5.1 trillion) was leaked to tax havens since 2003. The transfer volume has also increased six fold and the number of individual transferers increased by 50%.

According to Bank of Korea's report, Foreign Currency-denominated Money Transferred to Tax Havens, the amount of foreign currency-denominated money transferred to tax havens in 62 countries such as England and Hong Kong from 2003 to 2012 reached 5.6 quadrillion won (US\$5.1 trillion).

The transfer amount, which was at 78.0707 trillion won (US\$71.8 billion) in 2003 increased 5.7 times to 453.0354 trillion won (US\$414.5 billion) in ten years.

Tax haven refers to countries that exempt or apply extremely low income tax rates in order to attract foreign capital.

According to the report, 62 countries including England, Hong Kong, Singapore, and Switzerland were identified as tax havens. These tax havens are identified by the Korea Customs Service and include 50 countries scrutinized by the National Tax

Service. This is the first time the transfer amount was revealed at a national level.

The largest amounts of money were transferred to England, Hong Kong, and Singapore in the past ten years, followed by the Netherlands, Philippines, Switzerland, Canada, Luxembourg, Ireland, Malaysia (Labuan), and the Cayman Islands.

The number of individuals and corporations sending money to tax havens also increased. The number of individuals increased by approximately 50% from 27,500 ten years ago to 47,000 last year. And the number of corporations increased from 134,900 ten years ago to 142,200 last year.

This report only includes funds that are declared lawfully, and tax authorities predict that there is a significant amount of money that is not declared. Even when declared, transfers are made through companies established in other nations, making it difficult for tax authorities to catch the flow of money.

As the rapid increase in offshore tax evasion is revealed, the tax authorities will examine the volume of money leaked to tax havens and strengthen investigations. "There's a chance of offshore tax evasion in the money transferred to tax havens. We are communicating with tax haven countries that are under a tax agreement with Korea," explained National Tax Service official.

Once the money is transferred to tax havens, investigation becomes difficult, and


even if found guilty of offshore tax evasion, it's difficult to have the assets attached. It's necessary to closely analyze the transfer records to tax havens," pointed out Lee Man-woo of the National Assembly's Strategy and Finance Committee.

Meanwhile, the National Tax Service (NTS) launched its first investigation of undeclared foreign bank accounts.

According to the NTS on September 1, it has started to investigate 47 people suspected of having undeclared offshore accounts worth over 1 billion won (US\$908,000).

The reporting system for undeclared accounts held abroad is to prevent tax evasion through secret transactions by declaring offshore accounts worth more than 1 billion won (US\$908,000) owned by domestic residents or domestic corporations to the NTS.

In June, the government body got reports of offshore accounts worth 22.8 trillion won (US\$20.6 billion) from 678 people. 301 people and 368 corporate bodies voluntarily reported 2.5 trillion won (US\$2.27 billion) and 20.3 trillion won (US\$18.4 billion) each. After conducting an analysis, it found several offshore accounts with more than 1 billion won (US\$908,000), which prompted the agency to make a list of 47 people with undeclared accounts.

It turned out that most of those accounts were under the name of mid-sized companies, or those related to the owners of such firms. It was also revealed that secret incomes, including rebates from overseas local subsidiaries, were hidden in borrowed-name bank accounts under the names of local employees. Apparently, people received money by falsely declaring that paper companies provided service, and sent the money to borrowed-name bank accounts under their own names. 

## NEW CAPITAL ACT

# Amendment to Financial Investment Services and Capital Markets Act Put in Force

The amendment to the Financial Investment Services and Capital Markets Act, which was proclaimed in late May this year, takes effect on August 29. It will allow securities companies with capital of over three trillion won (US\$2.7 billion) to be engaged in corporate credit granting and prime brokerage for pension funds and foreign hedge funds, while asset management and investment consulting companies that have not done sales activities are driven out of the market.

Alternative trading systems (ATs) are expected to be established to compete with the Korea Exchange (KRX) and the annual salaries of the registered directors of listed companies, which have not been subject to public announcement, will be opened to the public. At the same time, the reward paid to those who report unfair business practices such as stock price manipulation is increased from 100 million won (US\$89,900) to 20 billion won (US\$17.98 million) and specific criteria for the payment are specified.

Many experts are saying, though, that the revised bill is unlikely to have a significant impact for the time being. This is because the regulations regarding the net capital ratio (NCR) still remain, and the ATs are subject to those limiting trade volume.


Also, when it comes to corporate credit granting, securities firms have little room for lending due to equity capital and NCR regulations. The NCR is an index showing the financial soundness of these firms. According to the Financial Supervisory Service (FSS), the ratio has to be at least 150%.

Besides, pessimistic opinions have been expressed as to the ATs. Although it is true that the stock trading fees would

go down once ATs are set up as alternatives to the KRX, it is also pointed out the former will take time until they get some boost due to trading volume restrictions.

With the revision becoming effective, asset management firms and investment consultants that have not been involved in business activities are going to be wound up. In fact, the current regulations also require such entities to go out of business within six months from approval, but the number of actual cancellations has been low owing to the controversies surrounding the scope of the sales activities. However, the new act is expected to make it difficult for them to continue their business, as the requirements have been further specified to drive out the firms recording zero trust money for six months. An exception clause has been included in the act so that the grace period becomes

one year for real estate and special asset management companies. Under the circumstances, the investment consultants and asset management firms that have maintained their licenses only in expectation of trade-up are likely to be pushed out of the market. As of the end of June, there are 85 asset management firms and 157 investment consulting companies in Korea.

In the meantime, the scope of advisory firms' investment targets is expanded from financial investment products to real estate. In addition, domestic funds are allowed to make 100% investments in more overseas funds while partial investment in private equity funds is permitted on the condition of participation in management, and contingent capital instruments are introduced for the diversification of corporate financing means. 

## Details as to the Amendment

Revitalization of Investment Banking	-Prime brokerage allowed -Corporate credit granting expanded
Improvement of Capital Market Infrastructure	-Alternative trading systems introduced
Relaxation of Regulations on Asset Management Business	-Scope of business of investment advisory firms expanded to cover real estate -Investment in mezzanine securities allowed on condition of participation in private equity fund management
Flexibility about Listed Companies' Financial Management	-Contingent capital instruments introduced
Regulations on Unfair Business Practices and Public Announcement of Salaries	-Stockholding reporting regulations eased for executives and major shareholders -Annual salaries of individual directors made public (500 million won, US\$449,500, or higher)

Source: Financial Services Commission

## SWINGING EVALUATIONS

# Foreign IBs Release Switched Prospects on Korean Economy

Subordinated security bonds, once pushed aside by hybrid bonds, have once again become the preferred financing method for banks. In fact, these bonds are expected to increase in number as the Bank for International Settlements (BIS) affiliate Basel Committee on Banking Supervision (BCBS) will enforce its settlement regulations starting in December.

According to KIS bond evaluations on September 3, the size of banks' capital expansion through bonds has grown to 4.85 trillion won (US\$4.4 billion) this year. Of that, 1.55 trillion won (US\$1.41 billion) is new equity capital, and 3.3 trillion won (US\$3.0 billion) is subordinate security bonds.

The securities industry expected the number of subordinate security bonds to increase with the increased request to improve the equity capital ratios of domestic financial stock holdings.

The BIS ratio of domestic banks, which was 14.3% by the end of 2012, decreased to 14.0% at the end of Q1 and 13.88% at the end of Q2.

The reason that the BIS ratio of banks dropped is that the speed of equity capital



growth is slower than the increasing speed of risk-weighted assets. Domestic banks have shown a reduction in their net profits from 1.6 trillion won (US\$1.45 billion) by the end of Q1 to 1 trillion won (US\$909 million) in Q2. The net interest margin (NIM) has continuously dropped since 2011 to 1.88% by the end of Q2, which is the lowest since 2009. In addition, the corporate rehabilitation proceedings (legal management) of construction companies and STX Pan Ocean Company are steadily increasing bad account costs.


In fact, the Industry Bank of Korea and

Korea Exchange Bank each issued 300 billion won (US\$272 million) with 10 year maturity terms. Hana Bank will issue 200 billion won (US\$182 million) with 10 year terms, Daegu Bank 100 billion won (US\$91 million) at 10 years, and Gwangju Bank 60 billion won (US\$54.5 million) at 7 years in subordinate security bonds. Also, Woori Finance Holdings Company will issue 500 billion

won (US\$455 million) in subordinate security bonds, while Kookmin Bank and Korea Development bank are also preparing to issue around 400 billion won (US\$363 million) and 500 billion won (US\$455 million) each.

What is causing banks to turn to subordinate security bonds rather than hybrid bonds?

This mainly has to do with the fact that the number of insurance companies, which are the sources of demand, has reduced drastically with the accounting management of investments in hybrid bonds changing to equity securities from debit securities. In the past, when hybrid bonds were managed as debit securities, the danger coefficient remained around 2%. However, when managed as equity securities, the coefficient jumped to 12%, becoming a burden on the RBC ratio, which is the solvency ratio for insurance companies.

KDB Daewoo Securities researcher Kim Min-jung said, "Considering that banks have recently seen a decrease in profit and felt a burden in capital expansion, along with capital reduction due to the amortization of subordinate security bonds maturing under 5 years, it is most likely for the number of subordinate security bonds being issued will continue steadily despite the burdensome financial charges." 

Market profitability and valuation

Category	Profitability(%)		2013			
	One-month	Three-month	P/B	EPS growth rate(%)	P/E	ROE(%)
Advanced markets	-1.5	3.5	14.5	7.5	1.9	12.5
US	-2.3	2.4	15.1	7.2	2.3	15.3
UK	-0.8	3.4	12.5	-0.9	1.8	14.0
Europe(excluding UK)	0.4	5.0	13.9	-0.4	1.5	11.0
Japan	-3.9	6.9	14.1	65.6	1.2	8.7
Emerging markets	2.5	-0.3	10.5	8.8	1.4	12.9
Emerging Latin America	2.4	-2.1	12.9	9.3	1.5	11.4
Emerging Europe	0.9	1.8	9.9	-5.1	0.7	10.3
Emerging Asia	1.9	-0.8	10.8	14.3	1.4	13.3
China	5.2	3.2	8.2	9.7	1.3	14.6
Taiwan	1.8	-0.2	14.2	33.7	1.7	11.7
Korea	4.5	0.3	11.5	18.1	1.2	10.3

\*Based on September 5, 2013 local currency; 2013 numbers forecasted

\*Source: Thomson Reuters, WCE in Samsung Securities



## KOREAN STOCK MARKET

# Will Seoul Bourse Hold amid Weak Yen and Strong Won?



Hyundai Motor Company announced on September 2 that it sold 381,429 cars in the global market in August to record a 29.1% growth in sales volume. Nevertheless, it said that the business conditions are expected to deteriorate down the road, as the growth of advanced and emerging economies is losing steam at the same time, and uncertainties increase due to currency rate fluctuations.

The Korean won is appreciating against the US dollar at a rapid pace with the weak yen trend continuing. Although the global economy is showing some signs of recovery, the exchange rate movement is likely to pose significant risks to large corporations and small firms alike if the trend goes on.

However, stock market experts are predicting that the appreciation of the won is the result of Korea's robust economic fundamentals, and thus the currency risks will have a limited impact at best.

## Different Interpretations on Recent Drop in Won-Dollar Rate

The won-dollar exchange rate fell by 2.6 won on September 3 to close at 1,097.9 won. "The drop can be attributed, among others, to Korea's trade account surplus, the better-than-expected performance of Korean stocks as of late and the

stabilization of the values of the Indian and Indonesian currencies," said Jeon Min-kyu, research analyst at Korea Investment & Securities. He continued, "In the short-term, the won-dollar rate is likely to remain below 1,100 won."

Foreign exchange experts are raising concerns as the psychological barrier of 1,100 won is broken again. "If the value of the won further appreciates amid the weak yen, the Korean economy could face significant challenges," said one of them.

The consensus is that the weak yen's impact is limited for now, because it takes some time for the foreign exchange rate movement to begin to have its effect on the real economy. The thing is, more and more market analysts are mentioning that the time has come.

Recently, the LG Economic Research Institute has said that the weak yen trend will begin to wield influence on Korea's exports in the latter half of this year, as Japanese companies cut the prices of their main export products like automobiles and steel in the second quarter. In general, it is considered that there is a gap of five to seven months between such price adjustments and their reflection in export statistics. "If the weak yen trend sets in, Korean companies would go abroad for the sake of price competitiveness like their counterparts did, and then a long-term recession could hit the country," it remarked.

Meanwhile, some market insiders are arguing that the current strong won is unlike those seen in the past. "It seems that the recent stock price gain amid the

appreciation of the won is what reflects the solid economic fundamentals of Korea," Hyundai Securities researcher Bae Seong-yeong said, adding, "Things won't get harder unless the Korean won plunges more against the US dollar."

## Some Companies Do Benefit from the Appreciation of Won

Then, what will be the most promising investment targets for stock investors? For Korean exporters, the appreciation of the won is not good news, since it affects their price competitiveness. However, the story is different for those companies importing a large quantity of raw materials or depending on the number of outbound tourists for sales improvement. The examples include airlines, food and beverage manufacturers, oil refining companies, pharmaceutical firms, and steelmakers.

For airlines, their operating expenses are more directly related to foreign currency exposure than sales are, and thus the strong won can have a positive effect on their business profits. Considering the huge liabilities and capital costs derived from the import of aircraft, the currency rate movement as of late can be a positive factor.

In the case of food and beverage makers, raw material imports are larger than the amount of exports of finished goods, which means the appreciation of the local currency is supposed to result in a substantial improvement in operating profits. Therefore, the current trend can be the momentum the industry needs to pump up stock prices. The same analysis can be applied to pharmaceutical companies, which pay a large sum of royalties abroad for the use of patents.

Oil refining companies and steelmakers have made capital investments, build-

Impact of Foreign Exchange Fluctuations on Export Items

Classification	Resistance to Foreign Exchange Risk	Dependence on Imported Raw Materials	Dominance of Multinational Corporations	Capital Dependence	Capital Dependence
Semiconductor	54	32	70	16	30
Information and Communications	90	27	68	44	90
Consumer Electronics	70	71	68	46	100
Automobile	82	100	28	15	70
Machinery	86	98	61	63	50
Steel	64	42	77	14	20
Petrochemical	79	44	65	38	60
Petroleum Products	100	15	100	3	40
Light Industry Products	91	64	45	100	70
Average	80	55	65	38	59

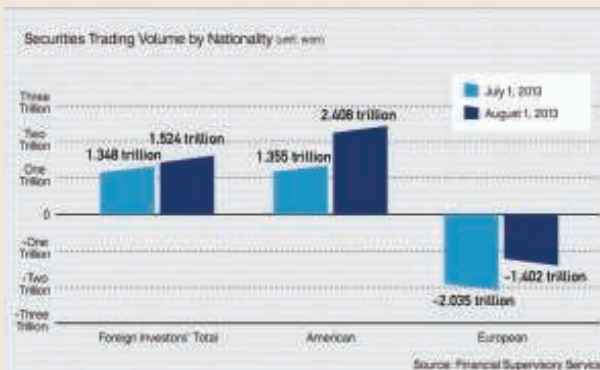
Note: The higher the number is, the larger the impact of exchange rate fluctuations on exports. Source: Bank of Korea and Shinhan Investment Corp.

ing on massive foreign debt. Accordingly, they can anticipate at least some decrease in liabilities and financial costs, though the currency rate movement could have mixed impact on their operating earnings.

“The stock prices could move in different directions, depending on the company’s conditions such as the current stock price level, financial structure, and future business prospects,” said a securities market analyst, adding, “Investors would be well advised to look into such issues of each item before deciding on where to put in their money.” BK

## DISTINGUISHING ITSELF

# Korean Stock Market Ranks 2nd in Rates of Return



US funds are saving the Korean stock market. European investors are taking profits as the won-dollar exchange rate is falling these days, whereas American funds are expected to buy Korean stocks for the time being.

According to industry sources, the Korean stock market ranked second in terms of rate of return between August 12 and September 10 among the 49 countries in the Morgan Stanley Capital International (MSCI) Index. The earnings rate amounted to 11.4% on a US dollar basis.

In the Korean stock market, foreign investors have net bought shares worth 6.5 trillion won (US\$6.0 billion) in total since July this year. US funds have accounted for the largest part. Specifically, the amount of net buying by foreign investors reached 2.9 trillion won (US\$2.67 billion) on a settlement basis between July and August, and that by US funds added up to 3.8 trillion won (US\$3.5 billion). As of last month, US investors owned listed stocks worth 156 trillion won (US\$143.7 billion) in the country,

which is equivalent to 39.4% of the total holdings by foreigners.

It is thanks to American funds that the KOSPI showed an upward movement in spite of the 3.4 trillion won (US\$3.1 billion) worth of net selling by European funds for the past two months. Experts are saying that the aggressive buying can be attributed to their portfolio adjustment in Asian countries. Their influence in the market is expected to get stronger with time, because they are more oriented toward long-term investment than their European counterparts that are taking profits, with the won-dollar rate having touched 1,086 won per US dollar.

“Global economic conditions are the key for them to continue buying Korean stocks,” said Oh Tae-dong, research analyst at LIG Investment and Securities, adding, “Statistics show that foreign investors have purchased Korean stocks only when the ISM Manufacturing Index is at least 53.” At present, the index is at 55.7.

“It is the Korean, Taiwanese, and Chinese stock markets that are expected to benefit the most from a stronger global economic recovery down the road,” he went on, advising, “Still, there is also some possibility that more funds would be redeemed in Korea in that the KOSPI has gone up from 1,800 points to 2,000 without any adjustment.”

## KOREAN BOND-TYPE FUNDS

# Enjoying Net Capital Inflow of 154 Bil Won Despite Emerging Economies' Crisis

Capital Flow Into and Out of Bond-type Funds  
(unit: 100 million won)



\*ETF excluded / Based on August 21 data

Source: Korea Financial Investment Association

It has been found that the money drain from bond-type funds is slowing down in spite of the possibility of a foreign exchange crisis in India and the Fed's remarks on the end of the quantitative easing.

According to the Korea Financial Investment Association (KOFIA), the 30-year government bond yield topped 4% in the last week of August, as the bond market has been losing steam due to the announcements on the reduction of quantitative easing. In addition, investors are taking their funds out of emerging nations, raising concerns over the sell-off of won-denominated bonds in Korea.

However, experts are saying that the sentiment of foreign and domestic bond investors

is getting better. According to KOFIA's data, no less than 1,864.4 billion won (US\$1.6 billion) and 755.6 billion won (US\$678.5 million) were withdrawn out of domestic bond-type funds (excluding exchange traded funds) in June and July each, but approximately 154 billion won (US\$138 million) has flown into them in August. The resale amount is plummeting for overseas bond funds, too.

Nevertheless, financial market participants are getting more and more nervous, as the possibility of a financial crisis is looming large in India. Those in the other BRIC nations and emerging economies in Asia are also already panicked over the acceleration of capital outflow. Fortunately for Korea, how-

ever, the impact is rather limited on the local bond market for now. The bond balance has fallen from 103.2 trillion won (US\$92.67 billion) to 100.9 trillion won (US\$90.68 billion) between July 22 and this month, but things look better than in India or Indonesia.

Bond market experts are attributing the differentiation to the strong fundamentals of the Korean economy. "It is no stretch to say that Korea is free from financial shocks as of late," said Shinyoung Securities analyst Hong Jeong-hye, adding, "During the recent financial crisis, foreign funds flew out to cause the currency swap rate to drop and a widening spread to be formed, but things are the other way around these days, that is, Korea is succeeding in maintaining stability thanks to solid financial and economic structures."

Some people are pointing out, though, that it is too early to be content. They are mentioning that the crisis from India could spread to other countries to cause won-denominated bonds in those regions to be put on the market all at once. Malaysia and Thailand are in possession of won-denominated bonds worth a total of 7,395 billion won (US\$6.641 billion) and 7,386 billion won (US\$6.632 billion), respectively. The amount is estimated at around three trillion won (US\$2.694 billion) for each of India, Indonesia, and Turkey, too.

"The local bond market is showing a few signs of instability despite the possibility of the next Indian financial crisis and the capital outflow from bond-type funds seems to have finished for now," said an asset manager, continuing, "Nonetheless, it is also true that the foreign exchange crisis in India will take time to be resolved, and we need to keep a close watch on the Southeast Asian and BRIC financial markets for a while, with care and prudence." BK



## KOREA'S BOND MARKET

# Maturity of Corporate Bonds Becoming Shorter and Shorter

It has been found that the average maturity of newly issued corporate bonds has become shorter with the debenture market polarizing. Institutional investors are refraining from buying five-year or longer-term bonds to cause a drastic decline in the bond issue amount.

The Korea Securities Depository announced on September 9 that the ratio of five-year debentures was 34.81% as of July. The percentage increased from 64.69% to 68.53% between the beginning of this year and June, while that of one to three-year corporate bonds soared from 6.94% to 17.06% during the same period. The ratio of three to five-year bonds almost doubled from 27.69% to 47.01%, too.

Earlier this year, the ratio of long-term debentures had been quite high, because investors had been very willing to purchase long-term bonds for a high rate of return with the low interest rate trend continuing. However, things changed recently and the average maturity has dipped below

three years. This can be attributed mainly to STX Pan Ocean's filing for court receivership in late June this year. Since then, the debenture market has shrunk, and investors have shunned long-term bonds amid widespread uncertainties.

"Short-term debentures have been preferred by major investors like insurers and pension funds since the Woongjin Group's and STX Pan Ocean's court receivership," said a market insider, adding, "Their consensus is that it is too risky to invest in five-year bonds while they are losing sight of the market."

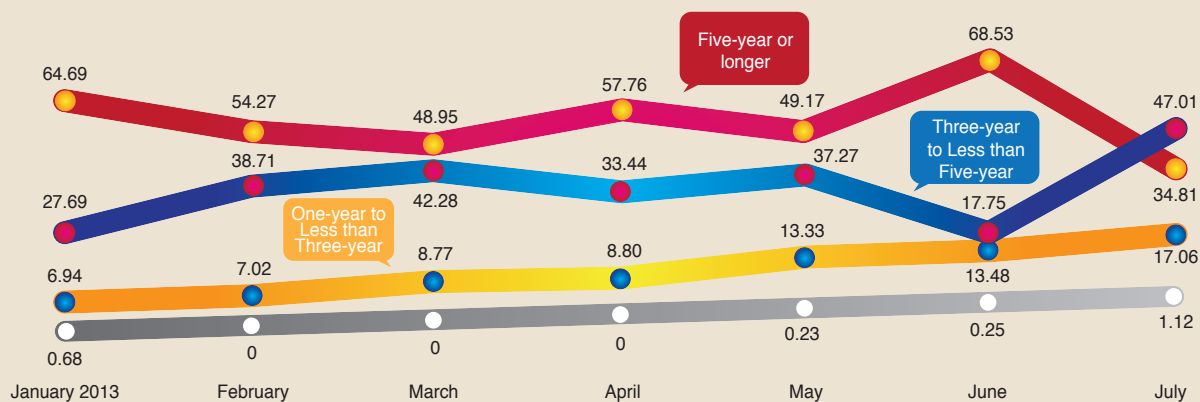
LG Electronics, which succeeded in demand predictions recently, was supposed to complete the issuance of two-year, five-year, and seven-year public corporate bonds, all worth 100 billion won (US\$922 million), back in June. However, the company postponed the issue due to bond market volatility, and halved the amount of the five and seven-year debentures to wrap up the demand prediction with success.

In the meantime, some companies are resorting to financing means other than an initial public offering. For example, CJ Korea Express submitted a securities report two months ago and issued commercial papers with a maturity of three years. In the following month, UAMCO, Daewoo Shipbuilding and Marine Engineering, and KT Rental announced similar reports for 140 billion won (US\$129 million, two-year maturity), 400 billion won (US\$369 million, three-year) and 100 billion won (US\$92 million, three-year) commercial papers (CPs), respectively. Experts are saying that they opted for the issue of long-term CPs to avoid demand prediction.

"The fact that even AA-grade companies have canceled or reduced the issue of long-term bonds reflects how dampened the sentiment of institutional investors is," said an investment banking industry insider, adding, "At least for now, those with an A or lower grade don't dare to dream about issuing three-year or longer-term debentures." BK

Ratio between Newly Issued Corporate Bonds by Maturity (unit: %)

Source: Securities Information Broadway (SEIBro) of the Korea Securities Depository



## LOCAL HEDGE FUND

# Korean Hedge Fund Market Growing at a Rapid Pace



The Baekdu 1st Hedge Fund, released on September 17 last year by Brain Asset Management, recorded a rate of return of 25.7% as of the end of August. The earnings rate reached 12.3% during the eight months of 2013 alone. Brain Asset Management is currently enjoying the highest share in the local hedge fund market. In the mean time, the combined amount of the hedge funds issued by Korean firms has topped 1.5 trillion won (US\$1.4 billion) recently in two years and nine months.

Since the establishment, the fund has outperformed the Korea Composite Stock Price Index (KOSPI) by 29.5%, whereas the other hedge funds' rates of return have not exceeded 20%. For example, Samsung Asset Management's Samsung H Club Equity Hedge and Samsung H Club Multi Strategy have recorded 16.72% and 15.04%, respectively. Shinhan BNP Paribas' Hankuk Myeongjang Korea Securities Long Short has posted a rate of profit of 5.63% below zero since the establishment, and 2.53% since the beginning of this year. The rates were 6.97% and 12.99% each for its Asia Long Short Fund.

Brain Asset Management, which had

excelled in the sale of wrap accounts, turned itself into an asset management firm in September last year and has taken up 33% of the local hedge fund market since then, managing approximately 500 billion won (US\$458 million) in assets. Its hedge

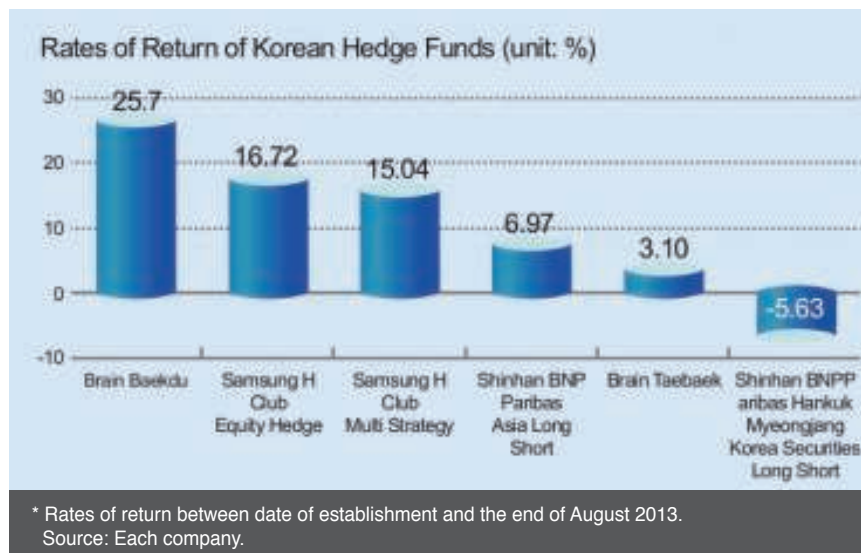
fund amount increased from 210.5 billion won (US\$192.6 million) to 527.4 billion won (US\$482.6 million) between late last year and late August 2013.

In March, it released its second hedge fund by the name of Taeback, which is characterized by a sector-by-sector long-short strategy utilizing macro indices, unlike the Baekdu that focuses on companies' profit growth potentials. "Our strategy of looking into corporate profits

and deciding where to invest based on the growth potentials hit the mark," said Brain Asset Management, adding, "With our total amount of trust recording four trillion won, we're planning to release our first public offering fund in April next year."

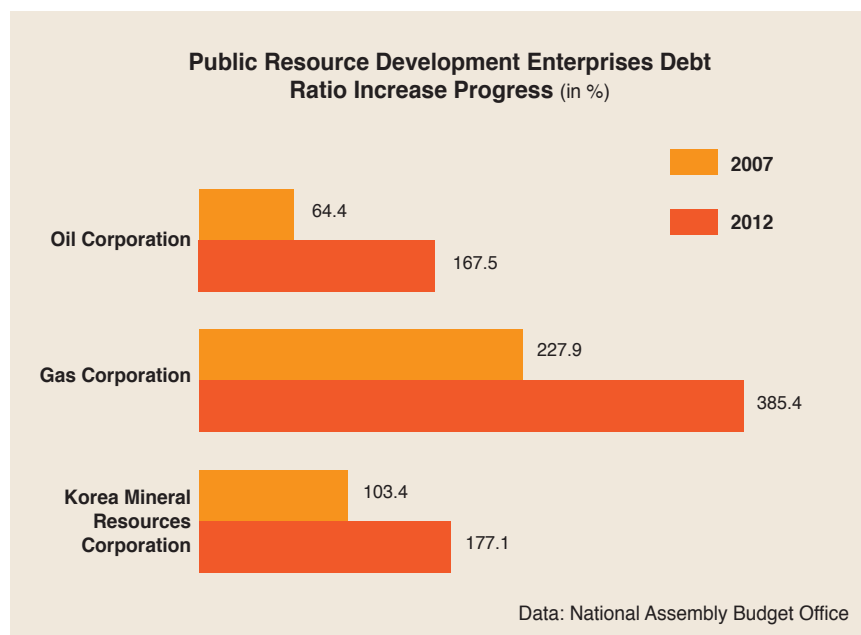
On the contrary, KB Asset Management and Korea Investment Trust Management, both of which withdrew from the hedge fund market this year due to the lower-than-expected performance, are monitoring the situations before coming back to the market.

These days, the global hedge fund market is showing signs of recovery and Korean hedge funds are expected to distinguish themselves this year in terms of the profit rate and size alike. "The global total hedge fund assets under management reached US\$2.1 trillion as of the end of last year with a rate of return of 6.1%," said Shinhan Investment Corporation researcher Sohn Mi-ji, adding, "Korean hedge funds are expected to grow to at least three trillion won before 2016." **BK**



## ASSET SALES

# Oil and Other Corporations Warn Large Asset Sales



The government decided to lower the level of debt ratio of public foreign resource development enterprises to that of global resource development leaders such as Exxon Mobil or British Petroleum (BP). These global benchmarking companies have a 100% - 150% debt ratio, so considering the fact that Korea Gas Corporation has a ratio of 400%, it will be impossible for Korean enterprises to avoid large-scale asset sales.

According to the authorities on August 29, the Ministry of Trade and Industry recently submitted a report on "Future Directions for Foreign Resource Development Reinforcement Policies" to the National Assembly.

The government has announced that it will take care of the distressed assets of public foreign resource development enterprises, but this is the first time an actual and specific debt ratio management

method has been reported.

The Ministry will improve the debt ratio of resource development enterprises such as the Korea Oil Corporation, Korea Gas Corporation, and Korea Mineral Resources Corporation to be similar to leading global companies as well by selling distressed assets, activating stock flow, and attracting financial investors. Exxon's ratio is 94%, BP's is 151%, Anadarko's is 140%, and Statoil's is 145% as of last year.


The Ministry believes these public enterprises will be able to maintain stable foreign resource development only when they can manage their debt ratios at values comparable to their global peers (100~150%). Therefore, the current government will pursue a high level of restructuring and asset sales for these public resource development enterprises.

Last year, Korea Gas Corporation had

a debt ratio of 385.4%, Korea Oil Corporation of 167.5%, and Korea Mineral Resources Corporation of 177.1%. These public enterprises saw their debt ratios double in the past 5 years during former President Lee Myung-bak's expansion of foreign resource development business. The government gave self-development goals to these enterprises, which then went through large-scale mergers and acquisitions (M&A) to accomplish such goals, creating large loans.

In order for these public enterprises to lower their debt ratios to the level suggested by the government, they have to shut down most of the projects they have been pursuing for the past 5 years. In fact, it will be rather difficult to start any new projects, so the foreign resource development business on a national level will be reduced across the board.

The Ministry noted that it is not trying to lower the debt ratios in a short period of time by selling assets. A Ministry associate said, "Global companies like Exxon and BP have tried for tens of years to stabilize their debt ratios," and added, "We will respond accordingly to business values and market trends."

Instead of pushing for harsh asset sales of public enterprises, the Ministry will increase the success payment loan budget for private companies participating in foreign resource development. In other words, foreign resource development will be continued by private companies. The success payment loan is a policy that allows the government to share some of the risk when developing a high-risk industry area, which had a 130 billion won (US\$116 million) budget this year but will have an increased 240 billion won (US\$215 million) budget next year. 



## PATENT TROLLS

# Korean Government Poised to Tackle the Attacks



The government is working on comprehensive measures to cope with international patent disputes as non-practicing entities (NPEs) are stepping up their offensive against Korean firms.

According to the Ministry of Trade, Industry and Energy and the Korean Intellectual Property Office (KIPO), the number of such lawsuits Korean companies are engaged in increased 131% from a year earlier to 210 in the first half of this year. 179 out of these were filed by NPEs, whereas the number of patent lawsuits filed by Korean firms stood at just eight.

These days, American patent trolls such as American Vehicular Sciences and Potter Voice Technologies are making an indiscriminate attack on Korean IT firms, convergence products, etc. Samsung Electronics and LG Electronics faced 72 and 41 suits each in the first half of 2013 alone, while Hyundai Motor Company and Kia Motors were sued 19 times during the same period, respectively. "Patent suits revolved around telecoms devices such as smartphones in the past, but they are covering other fields like cars and aircraft more


recently," said an industry insider.

Under the circumstances, the government is preparing countermeasures against foreign patent trolls. Small firms are in desperate need of such support measures, since they are exposed to patent-related attacks without any protection. Major corporations have their own task forces.

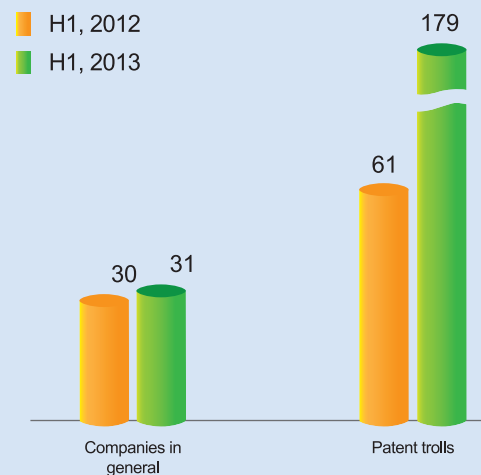
The government is planning to provide legal consulting services to more companies, along with financial aid like low-rate loans. In fact, it has provided insurance support for the protection of intellectual property rights, covering up to 70% of the insurance premiums. But the demand has not been fully met due to the ceiling on the budget fixed at approximately 800 million won (US\$730,400) a year. "It is a matter for consideration whether or not the government should provide individual companies

with their litigation costs, but we're mulling over how to back up small firms involved in patent lawsuits."

At the same time, the government is going to expand the channels through which Korean firms can get help abroad. For example, it is setting up more patent offices in emerging countries, while establishing more IP Desks in conjunction with the overseas offices of the Korea Trade-Investment Promotion Agency (KOTRA) and building a database on patent dispute cases. "We'll be in closer contact with Korean exporters abroad so that they can have greater access to our advisory services," said a KIPO representative.

The government founded a new organization as the importance of international cooperation and response by means of cross-border treaties is on the rise, too. Specifically, the tentatively-named Industrial Protection and Cooperation Bureau is going to be set up in KIPO before the end of next month. 

Number of Patent Lawsuits Involving Korean Firms  
(unit: case)



## REGROUPING OF SAMSUNG FAMILY BUSINESS

# Cheil Industries to Focus on Materials Business



Cheil Industries' Executive Vice President Lee Seo-hyun (left), second daughter of Samsung Group Chairman Lee Kun-hee (center), and his eldest daughter Lee Boo-jin (right), president of Hotel Shilla and Samsung Everland.

Cheil Industries' apparel business, headed by Executive Vice President Lee Seo-hyun, the second daughter of Samsung Group Chairman Lee Kun-hee, will be transferred to Samsung Everland led by Lee Boo-jin, the eldest daughter and president of Hotel Shilla and Samsung Everland.

It is expected that this move will serve as an opportunity for Samsung Everland to become a company that manages clothing, food, and

shelter-related industries. For Cheil, this deal will be a chance to transform itself into a company that specializes in the cutting-edge materials business.

Currently, the main businesses of Everland consist of engineering and assets (construction, energy, landscaping, real estate service), food culture (food service, food ingredient distribution, concessions), and resorts (theme

parks, golf clubs). Thus, the addition of the fashion business will make the company a large enterprise that owns clothing, food, and shelter-related businesses.

Everland hopes that its businesses will grow qualitatively by integrating Cheil's global design capabilities into existing businesses. In particular, the successful combination of Everland's expertise in the management of theme parks and golf clubs with Cheil's capabilities is

expected to create new synergy in fields with high growth potential such as sports, outdoors, and fast fashion.

With the acquisition of the fashion business, Everland will become an enterprise with annual sales worth 5 trillion won (US\$4.65 billion) from the current 3.5 trillion won (US\$3.26 billion).

Cheil Industries, on the other hand, recently expanded its materials business by acquiring majority shares in Novaled AG, a German-based organic light-emitting diode (OLED) company. Through the handover of its fashion business, the company reaffirmed its goal to become a top materials company in the global market.

In fact, it has been a long time since Cheil shifted its focus from the apparel business. It expanded its chemical business in the 1990s and electronic material business in the 2000s. Since then, it has concentrated on the materials industry rather than the fashion business. Thanks to 20 years of heavy investment in the cutting-edge materials industry, Cheil's chemicals and electronic materials business accounted for over 70% of its total sales last year. In contrast, the fashion business, once important in the 1980s, made up less than 30% of its entire sales in 2012.

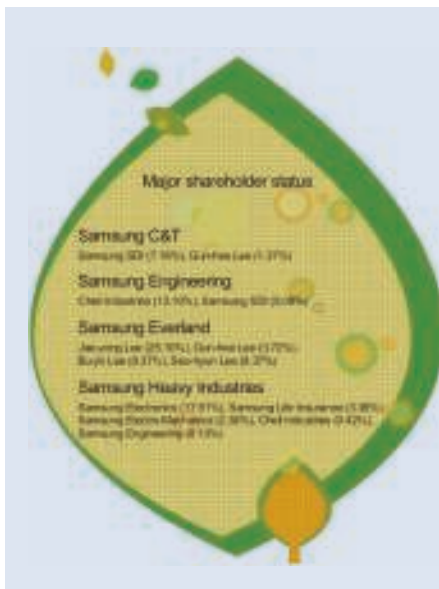
A Cheil official commented, "The management made a decision to generate more than 2 trillion won (US\$1.86 billion) by giving up its fashion business and concentrating its capabilities on one business instead." 

## Samsung Group's Four Construction-related Companies Move As One

The four construction-related companies within the Samsung Group are moving forward together with various cooperative businesses. These efforts seem to precede Samsung Group's business reorganization.

According to industry reports released on September 24, Samsung C&T's Engineering & Construction unit, Samsung Everland's construction division, Samsung Heavy Industries' construction division, and Samsung Engineering have built a joint system for cooperation. The four construction-related companies within the Samsung Group will cooperate in the fields of materials purchase, partnership management, partnership support, and partnership discovery.

These movements are not significant enough to immediately affect the current system and management. However, many events such as Cheil Industries passing over the fashion business to Everland point to the fact that Samsung Group's business reorganization may speed up.



## UNEXPECTED HURDLE

# Dyson Sues Samsung for Patent Infringement



Cheil Industries' Executive Vice President Lee Seo-hyun (left), second daughter of Samsung Group Chairman Lee Kun-hee (center), and his eldest daughter Lee Boo-jin (right), president of Hotel Shilla and Samsung Everland.

UK-based vacuum manufacturer Dyson filed a lawsuit against Samsung Electronics for copyright infringement. The product for which Dyson issued proceedings in the English high court at the end of August is the Samsung Motion Sync vacuum cleaner introduced in June.

The British company claims that the

difficulty. The allegation that Samsung copied Dyson's patented technology can be an obstacle to increasing the sales of its first premium home appliances.

In the field of household appliances, the Korean electronics company has been a global leader in washing machines, refrigerators, and air conditioners. But it has been lagging

Korean firm stole its steering mechanism for cylinder cleaners. The mechanism in question allows the body of the device more stability, helped by the separate movement of the wheels and body.


With Dyson's legal action, Samsung ran into an unexpected

behind European and US companies in other household electric appliances. Thus, Samsung created a strategy to catch up with European and US rivals with the launch of its new premium products. And the first ambitious work was the Motion Sync vacuum cleaner.

The vacuum cleaner is similar in performance, but cheaper than European premium products, including those made by Dyson and Electrolux. By using its low-pricing strategy with high quality, Samsung revealed its intention to increase market share.

With the recent introduction of the Motion Sync vacuum cleaner, the Korean company has been running a global marketing campaign. From September 6 to 11, it showcased its newly-developed vacuum as a flagship product at the IFA 2013, Europe's biggest trade show for consumer electronics and home appliances.

Therefore, the allegation itself can be a stumbling block to Samsung's premium strategy.

In response to the British company's accusation, a Samsung official said, "The Samsung Motion Sync is an outcome of our own research and development," adding, "We will take legal actions." The official continued by saying, "The vacuum cleaner was inspired by wheelchairs. It has nothing to do with Dyson's technology." 

## COPY MACHINE BUSINESS

## Sharp Corporation Stopping Partnership with Samsung



Samsung Electronics was wanting to get into the business of making huge, room-spanning document production factories like the one above.

with US-based Xerox. In particular, Sharp ranks fifth in shipments.

However, the fifth largest manufacturer of copy machines will continue negotiations for white goods in order to produce proprietary products for the Korean electronics company.

At first, Samsung sounded out Sharp's interest in its takeover of the copier business, but Sharp declined. After the incident, both sides tried to find ways to establish a company that sells copiers as a joint venture.

Sharp Corporation stopped negotiating with Samsung to expand their business partnership related to copy machines.

Sources say that the Japanese electronics company will not pursue negotiations with Samsung Electronics due to growing concerns over possible technology leakage to Samsung by Japanese companies, including Canon, which have patents for the use of the company name necessary for the production of photocopiers.

Japanese copy machine makers occupy a large market share globally. Canon, Ricoh, Konica Minolta, and Sharp account for 80% of the global market for A3-sized digital copiers, together



## LG DISPLAY

# Developing World's First LCD for WiDi Monitors



WiDi allows the wireless display of image information from a computer to a monitor.

**L**G Display announced on September 9 that it has developed the world's first LCD display panel for 23.8-inch full-


HD monitors supporting WiDi, Intel's wireless image transmission technology.

The new product is designed to provide an imaging solution that directly receives and interprets a WiDi signal with its core chip built into the LCD module. As such, the development of WiDi-supporting monitors is expected to be facilitated

down the road along with the improvement of the quality of wireless images.

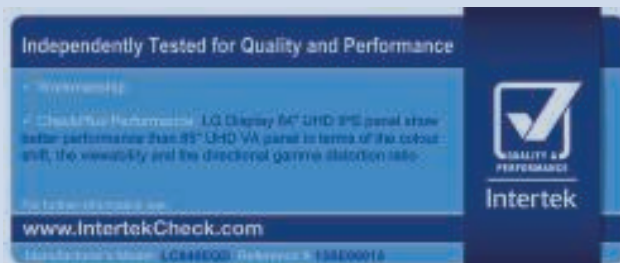
Until recently, TV manufacturers have sup-

plied a quantity of WiDi-supporting smart TV sets, but the rate of adoption has been relatively low in the monitor market, and what few products there are have been sold at a price point of 20% to 30% more than other models. In addition, the wireless transmission and reception of video has been impossible without a WiDi chip on the display panel, even if a laptop or desktop PC supports the technology. This new development of LG Display, however, is expected to enable the use of WiDi-based displays without additional cost burdens on the part of manufacturers and consumers alike.

LG Display is planning to unveil the WiDi-supporting LCD panel at the Intel Developer Forum (IDF), which is scheduled between September 10 and 12 in San Francisco. 

## IPS TECHNOLOGY

## US Certification Agency Certifies LG Display's Quality Better Than Any Other



There have been reports that LG Display's In Plane Switching (IPS) is better in display quality than the Vertical Alignment (VA) technology of competing companies such as Samsung Display or Sharp.

On August 29, LG Display tested the qualities of its IPS 84 inch UHD product against competing companies' VA 85 inch UHD products with global US product safety testing and certification agency Intertek. The results proved that the IPS product provided better display quality.

The IPS technology has been chosen by all LCD panel production companies to minimize an LCD panel's disadvantage of a screen looking different from different angles. The IPS technology has been competing against the VA technology.

Intertek tested for color difference, visibility, and gamma distortion, which evaluates how much change is observed to the color, contrast, and brightness aspects from the front and the side of the monitor, deciding resolution quality. As a result, the 84 inch UHD product using IPS technology had 65% less color difference, 94% less gamma distortion, and 73% higher visibility than the 85 inch UHD product using VA technology.

LG U+

# Starting Construction of Korea's First Full Broadband LTE Network



On September 12, LG U+ announced its plans to build a broadband LTE network, as well as release a new data specific phone plan and upgrade to 100% LTE service.

Prior to this, LG U+ beat the two other domestic mobile carriers and secured the largest bandwidth in the 2.6GHz range, standardized for global LTE, through a frequency auction held in August. It can now provide its customers with broadband LTE service that is twice as fast at both downloading and uploading.

LG U+ now has the most LTE frequencies among the three domestic mobile carriers, including the highest-quality national LTE network at 800MHz, the LTE-A network at 2.1GHz, and its basic LTE network. It plans to build the world's fastest next-generation LTE network by uniting these networks.

On the same day, LG U+ SC Director Lee Chang-woo said, "LG U+ will continue to lead the LTE market by building the fastest and most stable broadband LTE follow-

ing the world's best 100% LTE network and the 84 LTE-A networks across the nation."

LG U+ will quickly and stably complete its nationwide broadband LTE network based on its expertise gained while completing the world's first nationwide LTE network nine months after the service launched in July 2011.

In addition, LG U+ plans to expand its current LTE-A coverage in 84 regions to across the nation including major cities, and start providing the broadband LTE service in Seoul and nearby major cities by the end of this year, then in the suburban regions by March 2014, and nation-wide by July 2014.

LG U+ is the only mobile carrier among the three in Korea which secured the 40MHz broadband frequency allowing maximum 50Mbps for uploading. It also has the largest 80MHz LTE frequency among the carriers as well, allowing its customers to feel the service speed.


Other carriers secured frequencies which do not cover certain regions across the nation, meaning their uploading speed will

remain at the current LTE speed of 25Mbps, even if they complete the broadband LTE network construction. Also, they can only provide the broadband LTE service through the current 1.8GHz network even when additional LTE users increase the data traffic, making it difficult for both the current and new customers to actually feel the speed difference in the broadband LTE network.

LG U+ plans to provide a so-called "next generation LTE service" with faster speed by uniting the various networks including the broadband LTE service.

First, once the 2.6GHz broadband LTE nation-wide network construction is complete, LG U+ will connect the it to the current 800MHz and 2.1GHz LTE networks by March next year to start a service called "3 Band Multi Carrier (MC)" which distributes the data traffic to these three frequencies, providing the best quality LTE even if LTE users increase rapidly.

In addition, it will unite the original LTE network and the broadband LTE network in July next year when the nation-wide broadband LTE network begins full scale service, providing a "2 Band Carrier Aggregation (CA)" at maximum 225 Mbps in speed. By 2015, it plans to release Korea's first "3 Band CA" with 300Mbps in speed, by uniting the three networks of 80MHz LTE frequencies in total.

Also, LG U+ will add a large variety of customer-friendly features to the 100% LTE core services, such as U+HDTV and U+NaviLTE. Accordingly, U+HDTV, a mobile TV feature, will use the accumulated customer service use patterns to provide a customized contents list service based on the big data and improve its current HD definition to Full HD (1920x1080) to provide a clearer picture and captions sometime within September. 

## FREQUENCY AUCTION

## KT Wins So-called 'Golden Frequency'



KT snatched the much coveted 1.8GHz frequency band (D2 Block) in the LTE frequency auction at a price of 900.1 billion won (US\$813.7 million), signaling a significant change in the dynamics of the market. SK Telecom and LG U+ took additional frequencies in the 1.8GHz band (C2 Block) and 2.6GHz band (B2 Block), respectively. The three mobile carriers' total winning bids amounted to 2.4289 trillion won (US\$2.1957 billion).

According to the Ministry of Science, ICT, and Future Planning's announcement of the auction result on August 30, KT won 15MHz in the 1.8GHz frequency band, which is close to what it is already in possession of, after ascending and sealed bids of no less than 50 rounds. The

final contract price rose by 611.3 billion won (US\$554.4 million) from the initial price of 288.8 billion won (US\$261.1 million). In the meantime, SK Telecom obtained 35MHz in the C2 Block at 1.050 trillion won (US\$949.2 million) (initial price: 637.8 billion won, or US\$576.6 million) and LG U+ took 40MHz at the lowest price of 478.8 billion won (US\$432 million).


Under the circumstances, experts are predicting that KT, which has been slower at providing LTE-A services, will be able to catch up with its competitors. Still, it is also said that KT may be haunted by the winner's curse, as their winning contract bid is higher than expected. KT put forth a price higher than reasonable in the sealed bid to get the D2 Block.

## Speed Competition Likely to Further Heat Up

With the mobile frequency auction wrapping up, the three telecoms operators are expected to be engaged in more intense competition to provide faster broadband Internet services.

"We've made the most optimal strategic choice in the auction so as to get the solutions for top-class services for our subscribers," said an industry insider, continuing, "We'll invest more in our networks while striving to provide ultra-quality videos and content befitting the era of LTE." Another source added, "Now the stage has been set for Korea to become a global LTE powerhouse by making use of the frequency networks." He went on, "I hope that the government will continue its efforts to deal with problems like the lack of frequency resources and frequency fragmentation."

SK Telecom and LG U+ are predicted to bolster their LTE-A services down the road. The former kicked off the world's first commercial-scale LTE-A services in June this year and has expanded its coverage to 84 cities and more than 20,000 base stations nationwide. LG U+, on its part, is planning to provide its 100% LTE Service across the country so that each and every one of its subscribers can enjoy a speed of at least 150Mbps. KT is going to make the most of the new resources obtained at this time to keep up with them.

"In the mobile telecoms industry, the importance of frequency cannot be overemphasized," said eTrade Securities Analyst Kim Joon-seop, adding, "The frequency auction has great meaning, in that wireless Internet will be faster than its wired counterpart." 



## MICROSOFT'S BUYOUT OF NOKIA

# What Impact Will It Have on Korean Smartphone Manufacturers?



Microsoft took over the mobile phone business unit of Nokia on September 3 at a price of 5.44 billion Euros (US\$7.17 billion). IT industry experts are paying keen attention to the trump card played by the world's largest software company.

Nokia is the second largest mobile phone supplier in the world, though it has been overtaken by Samsung Electronics and Apple in the smartphone race. Through the acquisition, the global mobile phone industry is expected to see the four competing blocs of Apple, Samsung Electronics, Microsoft and Nokia, and Google and Motorola vying fiercely for market leadership.

Nokia sold over seven million Lumia Windows phones in the second quarter of this year. Although it has slid out of the top five in smartphone rankings, it is still the second-largest company in the world when the feature phone sales volume is taken into account, selling more than 60 million handsets a quarter. Its brand awareness is still very high in Europe, Africa, and the Middle East, and its annual production capacity amounts to

200-400 million units. If the Finnish company succeeds in selling the same amount of smartphones, Microsoft can catch up with Apple in the mobile operating system market in no time. This is why Microsoft decided not to dismiss any employee of Nokia.

All of the three powerhouses excluding Samsung Electronics have vertically integrated their software and hardware business units. Apple manufactures iPhones and iPads using its own operating system iOS. Google, which has the Android operating system, acquired Motorola two years ago to bolster the hardware side. Microsoft is following in Google's footsteps now.

Samsung Electronics, due to its relatively weaker software capabilities, has produced Android smartphones in cooperation with Google. The collaboration has worked so well that they top the global smartphone and mobile OS markets, respectively. Even though Google has launched the Moto X through Motorola, it is putting more weight on its cooperation with Samsung Electronics so far.

Microsoft is hoping that the Google-

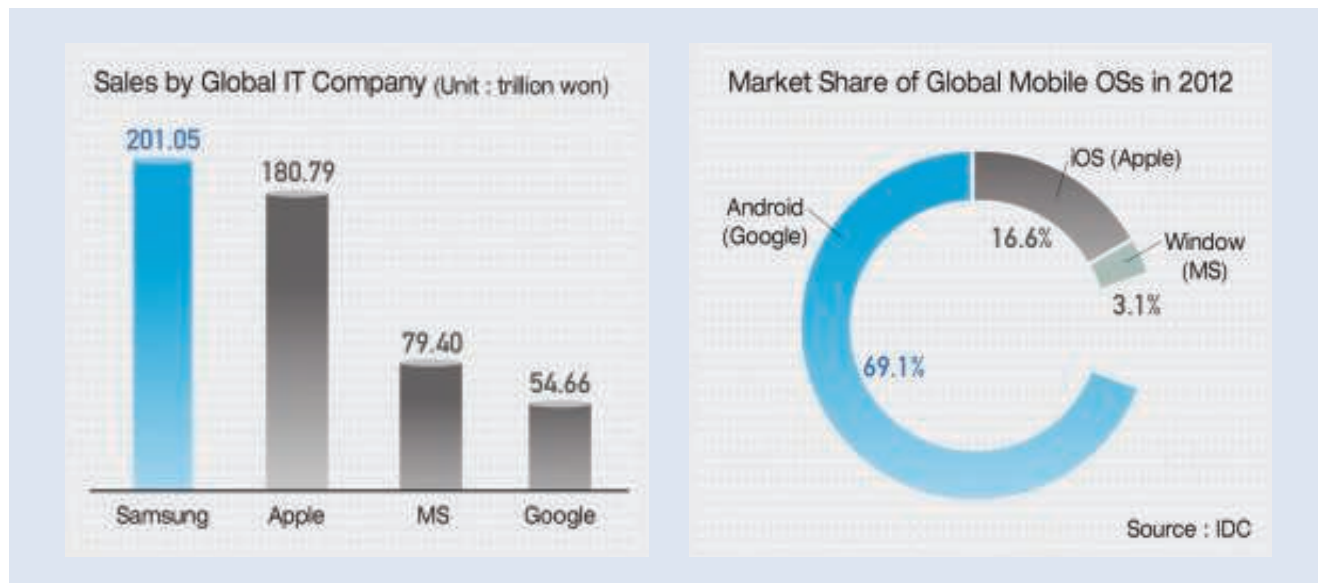
Samsung alliance will loosen with time, as Nokia alone does not suffice for it to get over Google and Apple. Microsoft is expecting that Samsung Electronics will manufacture and supply more Windows phones via Samsung Electronics. Consequently, Microsoft wants Samsung Electronics to manufacture and supply a certain amount of Microsoft's Windows phones each year.

At least for now, the general consensus is that MS and Nokia will have a hard time shaking the international smartphone market with the alliance between the leading hardware and software makers being firm and solid. "It is likely that Samsung Electronics will keep further away from the Windows phones, as Microsoft has decided to manufacture smartphones on its own," said professor Jo Shin at the Future Convergence Technology Research Institute of Yonsei University. He added, "Rather low is the possibility that Microsoft could do as well as Apple on the software and hardware sides alike." Besides, it could face even more difficulties if it fails to turn the tables at this time.

## Samsung Electronics Remaining Bearish in Stock Market

On September 3, Nokia's share price soared after the acquisition was announced, whereas Samsung Electronics lost 1%. The former gained no less than 47% during the early trading session and the price reached 4.1 Euros at 1:20pm, 38% up from the previous session. "The takeover signifies that Microsoft now has the two pillars of hardware and software as is the case with Apple," said tech industry analyst Tim Bajarin.

Meanwhile, the news dealt a blow to Samsung Electronics. Its stock price



rose by close to 1% in the early session but began to fall after the news was made public. The closing price was 1,337,000 won (US\$1,216.67), down 1% from the preceding session. Still, foreign investors bought its shares worth about 60 billion won (US\$54.8 million).

Although local stock analysts are mentioning that the buying indicates Samsung's new freedom from the offensive by the two companies with low market shares, some of them predicted that foreign investors could change their stance from September 4 on. In fact, Samsung failed to turn bullish on that day, when the price dropped by 0.9% to 1,325,000 won (US\$1,205.75) as of 9:22am. Foreign investors who bought its shares for nine consecutive trading sessions until September 3, are disposing of them too. The selling spree is being led by UBS, Citigroup, Merrill Lynch, CS Securities, and C.L.S.A.

Although the price is going down, most Korean securities firms are saying that the Microsoft-Nokia partnership will have little impact on Samsung Electronics. "The takeover could result in waning support of Nokia by European consumers," said Baek Jong-seok, research analyst at Hyundai Securities, continuing, "It seems that restructuring is on the horizon in the global smartphone industry, and those that survive will be able to enjoy higher profit-

ability over time."

## Nokia's Mobile Telephony Patents Putting a Strain on Korean Handset Manufacturers

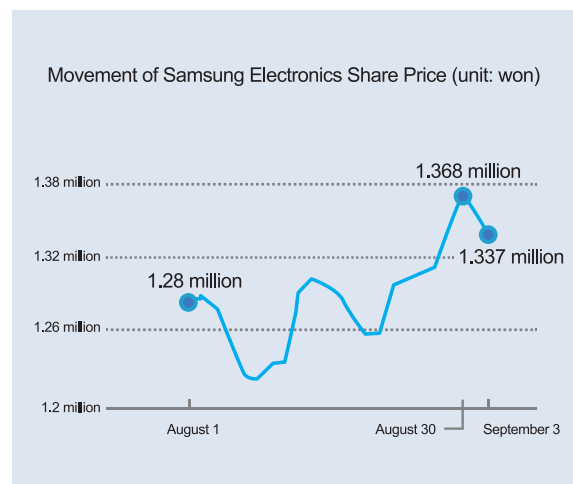
In the meantime the three Korean mobile phone manufacturers -- Samsung Electronics, LG Electronics and Pantech -- are busy guessing what will become of the acquisition.

They are considering that their sales will be little affected by the takeover. Nokia has not focused on the sale of smartphones but feature phones, and thus it is not in direct competition with them. Also, Nokia accounted for only 3.2% of the global smartphone market in the previous quarter. Instead, they are anticipating that the new alliance will put a brake on Google. "The Google Android takes up 80% of the mobile OS market," said a high-ranking executive at one of the firms, adding, "If the Windows phone manages to increase its presence in the global market, it can be used as a tool to keep the dominant force in check."

What they are worried about is the mobile phone patents that will be handed over from Nokia

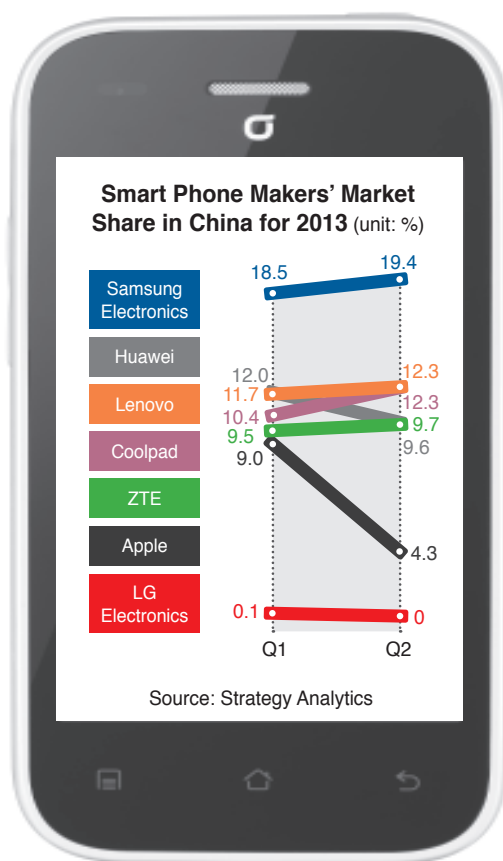
to Microsoft. Nokia is in possession of approximately 10,000 mobile phone and telecoms patents. It has wielded such great influence in this field that it won the patent lawsuit against Apple last year to win a huge sum of patent royalties.

Up to this moment, Nokia has not used its patents to attack other companies. On the contrary, it has allowed them to use the patents at a reasonable cost. However, Microsoft does use its patents for hostile purposes. "It is expected that Microsoft will demand patent fees on the Korean handset makers or put pressure upon them to include Windows phones in the product lineup," said Electronics Engineering Professor Jeong Ok-hyeon at Sogang University. Bk



## CHINESE SMARTPHONE MARKET

# Rapid Growth Provides Korea with Opportunities and Uncertainties



China is posing more risks and uncertainties than before to Korean mobile phone and home electronics manufacturers. Specifically, the handset makers are facing Apple's strong resistance in the Chinese market, which is sure to become the world's largest LTE market soon, with their dependence on it on the rise. Home appliances makers are increasingly forced to change their strategies as the local demand for high-end products is increasing and more and more energy-related regulations are put in place.

Mobile phone manufacturers like

Samsung Electronics, Apple, and LG Electronics are striving hard to increase their presence in advance in the Chinese LTE market. Some industry insiders are pointing out that their increasing reliance upon the market could result in deteriorating business performance with time.

## Major Smart Phone Makers Endeavoring to Dominate Chinese LTE Market

According to industry sources, Chinese mobile carriers launch commercial-scale TD-LTE services within this year. Under the circumstances, Apple is poised to catch up with its arch-rival Samsung Electronics by way of an alliance with China Mobile, the number one mobile carrier in the world with over 700 million subscribers. It is said that Apple will supply it with its iPhone 5S and iPhone 5C sooner or later.

Up to now, Apple has supplied its products only to China Unicom and China Telecom, the

second and third-largest carriers in the region, and the policy has dragged down its market share there to 4.3% in the second quarter of this year. It was outperformed by Samsung Electronics and even by Chinese manufacturers, selling just 3.4 million units of phones at rank eight in the market during the period.


However, Apple is expected to create a new momentum in China down the road through its partnership with China Mobile. Apple has made strenuous efforts to win over Chinese customers. It has abandoned the closed policy peculiar to

itself only in China. CEO Timothy Cook has visited the country several times, and held the launching event for the iPhone 5S there, too.

In the meantime, Samsung Electronics, which sold 15.3 million handsets and accounted for 19.4% of the Chinese market during the second quarter of this year, has succeeded in shipping its Galaxy Note 2 to the region and is currently planning to supply other models to local telecom operators, including the TD-LTE version of the Galaxy Note 3. LG Electronics is trying to follow them by supplying the G2, which is expected to become the first flagship model of LG Electronics to be marketed in China.

## Possibility of China Risks on the Rise for Samsung and LG Electronics

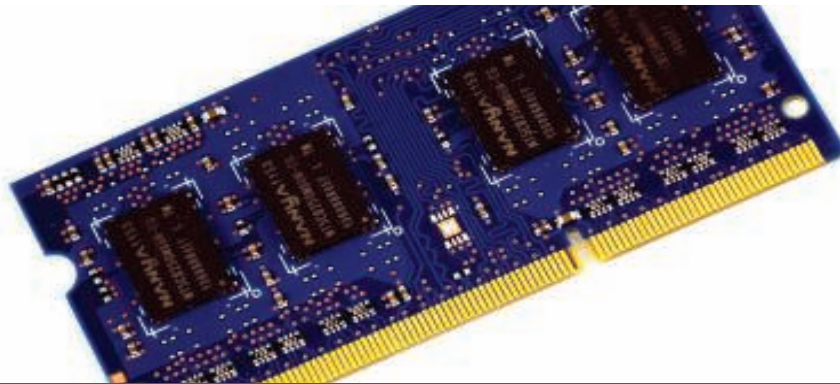
Their concentrated efforts in China are because of the huge size of the market. At least 289 million smart phones are estimated to be sold in the country in 2013 alone, which is equivalent to 30% of the global total sales volume. In addition, the number is forecast to surpass the 700 million mark in 2016. In the past quarter, Apple sold 45 million less smart phones in the world than Samsung Electronics did and the difference amounted to 12 million units in China alone.

Still, industry analysts are saying that Samsung and LG Electronics' increasing reliance upon the Chinese market could become a double-edged sword over time. "Samsung Electronics is so dependent on China as to sell more than 20% of its smart phones in China these days," said one of them, adding, "If it is overtaken by Apple in the TD-LTE race, its sales performance will significantly drop to the point of witnessing a change in market dynamics." 



## SEMICONDUCTORS

# DRAM Spot Price Soars 43% in Just Two Weeks



Two gigabytes of Hynix PC3 12800s DDR3 RAM that runs at a clock speed of 1600MHz and sometimes burns down manufacturing plants.

The DRAM spot price, which moved sideways for months, has been skyrocketing since the fire accident in SK Hynix's Plant in Wuxi, China. In particular, that of the DDR3 2Gb (1,666MHz) has jumped by over 43% when compared to before the accident.

According to DRAmEXchange's data made available on September 22, the spot price of the DDR3 2Gb (1,666MHz) increased more than 43% in two weeks to reach US\$2.277. The price has continued its upward trend this month. On September 5, the day following the fire accident, it jumped 19%.


The price soared to US\$1.97 on September 9, even though SK Hynix announced on the previous day that it resumed production in part of the Wuxi Plant. The price went further up to US\$2.013 on September 11 to break the US\$2 mark for the first time in nine quarters since the second quarter of 2011. Two days later, SK Hynix announced that it would resume the production in a full scale from October, but the spot quotation rose to US\$2.06 again due to concerns over a possible supply shortage.

"SK Hynix is going to restart the manufacturing in Wuxi from October and raise the production volume to pre-accident levels before the end of November, but the production resumption will be reflected to the demand and supply conditions with at least some time gap," said an industry insider, adding, "The supply conditions will not be stabilized until mid-December this year." In general, it takes an average of 40 to 45 days until wafers are input into DRAM manufacturing processes to pro-

duce finished goods.

At the same time, Chinese electronics manufacturers that have been supplied with a quantity of DRAM chips by the Wuxi Plant are hoarding chips at higher prices to provide against the year-end peak season. This is accelerating the upward movement of the DRAM spot price.

In the meantime, some experts are forecasting that the spot quotation can be stabilized earlier than expected in that SK Hynix is maximizing its production volume in Korea to normalize its DRAM supply. "The Korean company is planning to increase its Icheon Plant's production volume by at least 30%," one of them explained, adding, "As the case may be, some of the NAND flash fabrication facilities in Chengdu can be converted for DRAM manufacturing purposes."

The halt of the operation of the Wuxi Plant is expected to drag down the global DRAM supply volume by 8% to 9% until this year's end. SK Hynix is accounting for 30% of the global DRAM market. The Wuxi Plant is responsible for 49.7% of SK Hynix's total DRAM production. 

Movement of DRAM Spot Price for September 2013  
(unit: US\$)



## CAR MARKET IN KOREA

# Hyundai Motor Group's Share Dipped below 70% in the Local Car Market



Assembly line at Hyundai Motor Company's car factory in Ulsan, South Korea.  
(Photo courtesy of Taneli Rajala/Wikimedia Commons)

The monopolistic position of Hyundai Motor Company and Kia Motors in the local market is crumbling, whereas imported cars are increasing their presence at a very rapid pace.

The two companies' combined local market share dipped below 60% on August for the first time in five years, due mainly to not only the labor union strike, but also aggressive marketing by the other three Korean automakers and foreign carmakers.

Most imported car buyers are waiting for their cars for at least a couple of months these days, as the orders have been piled up. Under the circumstances, industry experts are saying that non-Korean automakers' growth will pick up even more speed if the supply shortage is dealt with properly in the local market.

Their rapid growth here can be attributed to their aggressive pricing policy and product diversification. Many of them have cut the prices of their products by one to three million won since late last year, after the implementation of the Korea-EU FTA. Though the amount of discount has been rather small, the effect has been massive, which means a lot of local customers are

looking forward to buying imported cars. German automakers like BMW, Mercedes Benz and Volkswagen, excluding Audi, have set new sales records this year, selling more than 10,000 vehicles in total in the first half alone. Toyota, which faltered last year, has sold over 7,000 cars during the same period, too. Even imported compact cars are increasing their popularity nowadays.

It is only SUVs that have survived the aggressive marketing campaigns. Ssangyong Motors, whose lineup is made up of SUVs with the only exception of the Chairman, has grown 34.1% this year. According to the Korea Automobile Manufacturers Association, the domestic sales volume of the five Korean automakers declined 2.7% year on year to 672,813 units in the first half of 2013.

"The increasing number of imported vehicles in the Korean market should be interpreted as Korean mak-

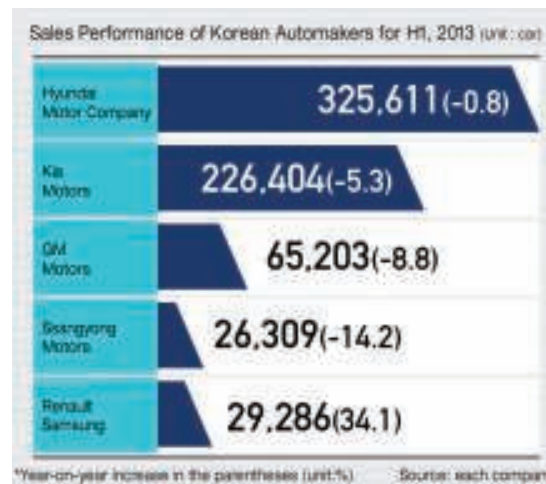
ers losing their ground, not the size of the market is growing," said automotive engineering professor Kim Pil-soo at Daelim University, adding, "It seems that Hyundai and Kia will be able to get ahead of their rivals again if they apply their jaw-dropping warranty services for US customers to the Korean market."

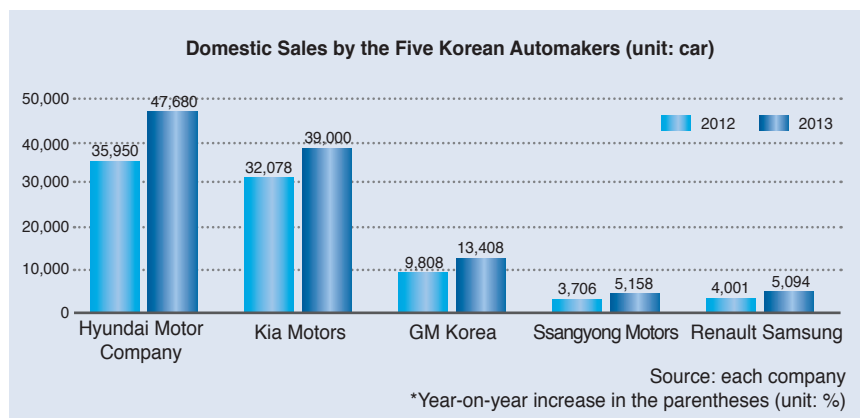
## Hyundai Motor Company Suffered Sales Decline in August

Most Korean automakers enjoyed a rebound in sales on August, thanks to aggressive marketing. However, Hyundai Motor Company's domestic sales decreased during the month due to a partial strike by the labor union.

Hyundai Motor Company announced on September 2 that its domestic sales for August declined by 19.6% month-on-month to 47,680 units, dipping below the 50,000 unit mark for the first time in six months.

The figure is the lowest since August 2012, given the number of workdays reduced for the New Year's Holiday season of February. "The year-on-year increase in





sales between August 2012 and last month is because of the base effect, that is, the lowest record since January 2009 owing to the long-term strike of August last year,” said the company, adding, “The partial strike and the discontinuation of overtime have led to a drop in sales volume across the entire lineup.”

Kia Motors sold 39,000 and 185,247 cars in and out of Korea last month, respectively. The growth rate amounted to 17.5% when compared to the same month of last year, when the strike reached its peak, and to 5.7% vis-à-vis July this year. The company also suffered from a partial strike last month so that the production volume dropped by 9,475 units, but achieved a successful result nonetheless. In particular, the Morning, the K5, the Sportage R and the K3 showed good performance to boost the sales volume by 21.6% year-on-year. The domestic and overseas production increased 33.9% and 5.4% each to raise the overseas sales volume by 16.7%.

## All of the Others Enjoyed Sales Rebound in August

GM Korea sold 13,406 cars in the

Korean market in August, reaching the highest level since 2003 when it comes to the August sales volume. Renault Samsung set a new high in the domestic market as well, selling 5,094 and 5,717 cars in and out of Korea, respectively. It broke its own record for the second consecutive month. The sales volume of the SM3 went up by 15.4% from a month ago to lead in growth.

Ssangyong Motors sold 5,158 and 6,452 cars in the Korean and overseas markets each in August. The Korando series models led the upward trend, despite the decrease in working days for the summer vacation season. Its monthly sales volume went up by 27.1% and 23.9% on a year-on-year basis and on a cumulative basis, respectively.

## Skyrocketing Import Car Sales Slow Down in August

Domestic import car sales, which used to be on the rise, have abruptly slowed down. The import car market grew steadily until July, but decreased 6.5% in sales in August. It is most likely that the supply couldn't meet demand, due to shortages in newer models which sold well.

On September 4, the Korea Automobile Importers and Distributors Association (KAIDA) announced that the Number of Registrations of Imported Automobiles in August decreased to 13,977, which is 976 (6.5%) less than last month's 14,953.

It has been estimated that the soaring number of import car sales has halted due to the shortage in supply not being able to meet demand. The number of waitlisted consumers increased, but the number of automobiles did not. If this trend continues, German and European automobile companies may have to supply additional product.

Currently, the models showing a shortage in supply are Mercedes Benz E Class, Volkswagen Golf 7, and Toyota Camry.


The E Class showed a completely different design since its release in July, attracting many consumers, and the Golf 7 model called the “King of Efficiency” is popular for its improved design and high efficiency.

With the shortage of the E Class and other mid-size models, smaller size German models like the Volkswagen Golf have grown significantly.

BMW 1 and the Benz B Class are a few of these models. The 1 Series showed low sales growth when it was first released last year, but grew drastically in the past two months. The 1 Series, consisting of 118D and 120D, sold 98 in May, 156 in June, 156 in July, and 270 in August. Its sales grew 2.7 times in just 3 months. Consumer demand was high for the 118D, despite the high price of 36.50 million won (US\$33,398).

The Benz B Class did well also. In July, 118 were sold, but in August 204 were taken off the lots, which is twice as much.

However, the model that sold the most in August is the BMW 520D (804 vehicles), followed by the BMW 528 (562), Volkswagen Golf 2.0TDI (473), Golf 1.6 TDI Blue Motion (433), and Audi A6 2.0 TDI(370).

The top ten by brand starts with BMW in first place selling 3405 cars, followed by Volkswagen with 2493, Mercedes Benz with 1929, Audi with 1857, Ford with 596, Mini with 552, Toyota with 549, Lexus with 416, Honda with 370, and Chrysler with 348. 





## RATIONALIZATION OF REPAIR COSTS

# Korean Government to Curb Repair Costs, Increase Insurance Premiums for Import Cars



According to sources in the financial industry on September 15, the government has decided to improve transparency in auto repair expenses by supporting revision of the related laws.

The Ministry of Land, Infrastructure, and Transport (MLIT), the Financial Services Commission (FSC), and the Financial Supervisory Service (FSS) agreed to support parts of amendments for the Automobile Management Act and Passenger Transport Business Act put forward by Rep. MinByeong-doo, chief director of strategy and public relations for the Democratic United Party.

The government's push to slash repair costs for foreign cars appears to be gathering further momentum as witnessed by prosecutors' recent launch of a search and seizure operation against import car dealerships suspected of inflating repair and maintenance expenses.

A government official said, "There is a general consensus among ministries concerned about controlling excessive repair expenses for imported vehicles. Related government departments are also supporting the revised bills," adding, "Foreign car dealers and service centers are unable to react against the proposed bills as

strongly as they used to."

The main point of the amendments is to make the provision of information on auto parts obligatory, thereby preventing service centers from inflating repair expenses.

If those amendments pass, customers will be notified of details on hourly wages for repair items, and duration of repair work, and the cost, quantity, manufacturer, and serial number of auto parts.

With the revised bill, auto part costs can be reduced using certi-

fied replacement parts, instead of original auto parts. The business of auto body repair shops for minor repairs will also be limited to stop those shops from producing bogus estimates.

So far, objective assessment of repair expenses for foreign cars has been very difficult, since estimates only show the content of repair work, names of auto parts, and labor rates. In addition, the identification of second-hand parts has been a nearly impossible task.

Moreover, the average repair costs in the 2012 fiscal year (FY) were 2.33 million won (US\$2,152.92) for imported vehicles, 4.3 times higher than those for domestic cars (54,000 won, US\$49.90).

In FY 2012, the average insurance payouts in an auto accident were 2.965 million won (US\$2,739.66) for foreign cars, and 1.004 million won (US\$927.70) for domestic. Among imported vehicles, owners of Mercedes-Benz vehicles on average paid 4.154 million won (US\$3,838.30), and those owning Audi cars paid 4.072 million won (US\$3,762.53). Fiscal year 2010-2012 saw a 1.9% increase in the insurance paid for Korean cars, but a 25.5% rise for foreign ones.

The regulations for car rental prices will also be strengthened. A measure to prohibit service centers from offering rebates to rental car companies is under consideration. Violators would face a fine of up to 20 million won (US\$18,480.02) or a maximum prison sentence of 2 years.


In fiscal year 2012, the average rental costs after the accident were 1.196 million won (US\$1,105.11) for imported vehicles, 3.6 times higher than those for domestic cars (332,000 won, US\$306.77). In particular, 800,000 to 900,000 won (US\$739.20-831.60) is needed to rent the BMW750 for a day or two. There are a lot of cases where rental costs are more expensive than repair expenses.

However, it has been pointed out that a high loss ratio for import vehicles is not reflected in insurance premiums. In fiscal year 2012, the loss ratio for foreign cars was 81%, much higher than that for Korean cars (65.2%).

Therefore, FSS is accelerating work to remedy problems in setting insurance premiums for foreign cars.

Currently, the Korea Insurance Development Institute (KIDI) is working on compiling statistics about loss ratios depending on vehicle types, after receiving data for imported vehicles in the 2012 fiscal year from insurance companies such as Samsung Fire & Marine Insurance, Dongbu Insurance, and Hyundai Marine & Fire Insurance.

FSS predicts that insurance premiums for foreign cars will be increased after KIDI finishes the work.

FSC is also conducting a comprehensive review of the related system, since it reached the conclusion that there are general problems with repair expenses and insurance premiums for imported vehicles. 

## HYUNDAI MOTOR

# Vrooming Nicely in India

**Hyundai Motor India continues its success with 4 compact models, the i-20, i-10, Getz and the Santro**

Hyundai Motor India Limited (HMIL), a wholly owned subsidiary of Hyundai Motor Company of South Korea, is the second largest car manufacturer and the largest passenger car exporter in India. Ever since HMIL entered the Indian automobile market with the Santro (known as the Atoz in Korea) in September 1998, the company has shown quick and steady growth. The company sold a total of 489,328 vehicles in calendar year 2008, an increase of 49.6% over that of 2007. HMIL is considered the most successful foreign funded company in India. The company sold its 1,000,000 vehicle (domestic/ import) in March 2006, the shortest period ever in the history of the Indian automobile industry.

HMIL was established in India in May 1996 and opened up its first manufacturing plant there in December 1996. The company introduced the Santro in September 1998, since which it has maintained its No.1 and No.2 rankings in terms of automobile imports and domestic sales, respectively. With the completion of its second manufacturing plant in India last February, HMIL is now capable of producing 600,000 automobiles annually.

The i10, Hyundai's first model to be manufactured only at overseas manufacturing plants, is not only being sold in India but is also being imported to 90 countries in Europe,

the Middle East, Africa and Central/South America. The i10 is the first compact model in the Indian automobile market to be equipped with passenger airbags, fortifying safety. The i10's body is 40mm lower and 70mm wider than the Santro, giving it a sleek look, while also providing more interior space. The i10 was voted 'the car of the year' in India in 2008, winning every category of the competition. In 2008, HMIL conducted a unique transcontinental drive from Delhi to Paris in two of its hugely popular i10 Kappa cars to commemorate 10 glorious years of operations in India. The cars covered a distance of 10,000 km in 17 days, with one of the i10s then showcased at the Paris Motor Show. At the ceremony to initiate the i10's trans-continental drive, Lim Heung-soo, president of HMIL said, "For the past 10 years HMIL has been striving to offer the best technology and the best products to our clients in India which has now brought us success. We will ensure the next 10 years are also successful by continuing to introduce new products and strengthening our marketing tools. This journey to Paris will prove the i10 Kappa's high quality and durability."

The i20, Hyundai's second model to be manufactured at overseas factory only, was solely manufactured at a manufacturing plant

in India and sold in the Indian and European markets in December 2008. At the showcase, Lim said, "We will now use the i-20 to target the compact-luxurious segment and even the mid-sized segment. We will expand our market share in India by giving customers more options to choose from as well as using more aggressive marketing." HMIL now sells four compact models in India, the Santro, i10, i-20 and the



A Premium Compact Car "i20" launched by Hyundai Motor plant in India

Getz (known as the Click in Korea).

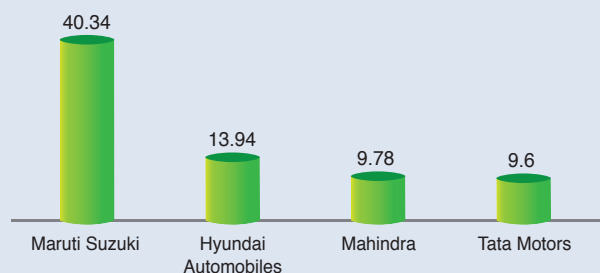
The i-20 retains the i-series' exterior design concept, with its head lamps, radiator grill and rear lamps, yet boasts wider interior space than the Getz due to an enlarged wheelbase. The i-20 is equipped with a newly developed, high-efficient and eco-friendly 1.2 liter Kappa engine, meeting the Euro5, a European environmental standard. The i-20 is the first compact car in India to be equipped with six airbags, ABS (anti-lock brake system) and EBD (Electric Brake-Force Distribution), giving it a five star safety level according to the Euro NCAP standard. HMIL is expecting to sell 12,000 i-20s in India and 122,000 in Europe, bringing the total to 134,000 for 2009. 



Staff in Hyundai Motor's Indian subsidiary

### Automobile Market Share in India (in %)

Data: SIAM, from June 2013



## OVERSEAS CONSTRUCTION

# Government Supports US\$8.6 Billion Funds to Win Overseas Orders



Early this year, a large Korean construction company placed bids for a co-generation power project worth US\$700 million in Saudi Arabia involving state-owned oil company Saudi Aramco. But a Japanese consortium won the order, since it promised to provide a long-term, low-fixed-rate foreign currency loan to the project owner. It was reported that even though the Export-Import Bank of Korea (Eximbank) issued a letter of intent about its financial support, the amount was vastly insufficient compared with the Japanese loan. The incident illustrates that these days skill alone doesn't guarantee overseas construction projects to Korean bidders.

In fact, local companies are only engaged in construction itself where profits are difficult to be generated. Low profitability is attributable to competitive pricing.

Korea is losing in price competition due to the competitive advantage of emerging economies, including China. Local companies also lag behind

advanced countries such as the US and EU in terms of technological and financial competitiveness. In other words, Korean firms are sandwiched between emerging market companies and those from advanced markets.

As a result, Korean construction companies' piece of the pie is dwindling. In the first half of this year, Korea's construction exports increased by just 3.1%, far below the 5-year average growth rate of 9.7%. Among contracts, local builders' mere involvement in construction accounts for 86%.

To address the problem, the government introduced measures to foster local firms' participation in the entire business process, so that they can engage in high-value-added economic activities.

The government decided to launch 9.6 trillion won (US\$8.6 billion) of funds through public-private partnerships, and to push forward with a plan to finance the funds by mobilizing its dollar reserves.

On August 28, Hyun Oh-suk, Deputy Prime Minister for Economic Affairs

and Minister of Strategy & Finance, announced plans to help local builders win overseas plant and construction orders in the Government Complex of Seoul.

The government will actively promote construction companies' business involvement in overseas projects by encouraging financial institutions to participate as investors. To achieve its goal, a new type of private-equity fund (PEF) will be established to ameliorate risks. It plans to raise US\$7.5 billion by laying the groundwork for the investment in a special purpose company (SPC), which will be established by state-run policy lenders, such as Eximbank, for the project. In addition, another US\$1.1 billion investment will be raised, for a total of US\$8.6 billion.

Seoul will also expand support for a plan in which local builders introduce local banks to project owners overseas in order to win contracts. In addition, it will strengthen loan guarantees and insurance services in a bid to facilitate the participation of financial firms in overseas projects. It will strengthen a guarantee for risk factors, such as exchange rate fluctuations.

By 2017, the government will invest 1.8 trillion won (US\$1.618 billion) in Eximbank in an attempt to increase the banks' ability to finance overseas projects. The Korea Trade Insurance Corporation will be annually assigned 120 billion won (US\$108 million). In the event that state-run policy lenders have difficulty with obtaining the foreign currency necessary to support projects, Seoul will authorize a currency swap where the Korean won is put in the Exchange Stabilization Fund (ESF) to get foreign currency and to finance projects. 



## SK E&amp;C

# Creating a Stable Portfolio through Business Diversification



Aromatics Plant in Singapore

SK E&C is actively engaged in the global construction market, signing various contracts all over the world. Three trillion won out of the total nine trillion won from new contracts last year came from overseas.

For the rest of this year, the company will continue to focus on becoming a global top-tier E&C. So far, SK E&C concentrated on contracting profitable orders, having accomplished 5.9 trillion won of its 10.9 trillion won goal for this year overseas.

To establish a stable portfolio, SK E&C is pioneering new business markets overseas, in addition to the petrochemical and refining plant markets in which it is already highly competitive. In fact, SK E&C is making noteworthy achievements in high value business fields, such as the thermoelectric and other power plant business as well as development related fields.

SK E&C successfully expanded its business to Chile after signing a US\$1.2 billion coal-fired electrical power plant construction contract in June this year. It has been selected as the preferred business partner by the ordering private power plant company, E-CL of Chile, for two 375MW coal-fired electrical power plant constructions. SK E&C will be in charge of engineering, procuring, constructing, and testing all

generating units in the power plants.

Also, SK E&C signed a large-scale thermoelectric power plant construction contract worth US\$950 million in Turkey. It will build three units of 150MW thermoelectric power plants burning lignite.

In addition, SK E&C signed a US\$662 million contract in 2011 for building two 150MW coal-fired electrical power plants in the largest thermoelectric power plant "PACO" in Panama.

These successful cases of overseas power plant construction work are significant in that SK E&C has built a stable global business portfolio through market diversification.

In fact, SK E&C will open new business opportunities and maximize its profits by making a new high yield business model outside the current Engineering-Procurement-Construction (EPC) centered business model through its Total Solution Provider (TSP) business.

SK E&C's specialized TSP business model provides comprehensive solutions to the customers. SK E&C can maximize its profit by cooperating with its affiliates to develop new projects, create basic engineering, and manage maintenance.

The Jurong Aromatic Complex (JAC) construction ongoing in Singapore is one of the rep-

resentative TSP businesses of SK E&C. This is a large-scale project worth US\$2.44 billion (2.813 trillion won). SK E&C will build an aromatic facility within the petrochemistry complex in Jurong, Singapore to annually make 3.9 million tons of petrochemical products by 2014. In fact, this project was selected as the "Deal of the Year" in 2011 by the global financial magazine Project Financial International (PFI) of UK.

The Eurasia Tunnel Project ongoing in Turkey is also a large-scale TSP project worth US\$1.24 billion, with 50-50 investment shares by a SK affiliate including SK E&C and a Turkish company YapiMerkezi. Through this project, a 5.4km duplex underwater tunnel will connect the Bosphorus Strait between Europe and Asia. This US\$1.24 billion project, including an extension of 14.6km of accident roads of the underwater tunnel, is the first overseas BOT business led by a domestic company.

Also, SK E&C expanded business to Egypt in 2011 after signing a 3.7 trillion won contract for constructing a large-scale ethylene petrochemical power plant. In Laos, it signed a 410MW hydroelectric power plant construction contract by forming a consortium with the Korea Western Power Company. For this project, SK E&C will be in charge of EPC of the power plant, and the Korea Western Power Company will be responsible for operating and maintaining the plant for 27 years after completion. This not only creates profit, but also contributes to improving technology in a developing nation by hiring and training man power within Laos.

SK E&C is actively doing TSP business in the global market and strengthening its business capabilities to find more high yielding developmental projects. SK E&C has secured a stable growth rate and global competitiveness in the rapidly changing global business environment, and will soon become a "global leader." 

## RUSSIAN RAILROAD PROJECT

# Hyundai Rotem Eager to Participate in Trans-Eurasian Railway Project



**H**yundai Rotem is about to participate in the construction of the Trans-Eurasian Railway. The company is going to enter the Russian railway market in earnest and make use of every opportunity.

Hyundai Rotem announced on September 8 that the top management of UralVagonZovod (UVZ), a Russian heavy machinery and cargo train manufacturer, will visit its plant and research center in Changwon City, South Gyeongsang Province, to discuss mutual cooperation on the project.

UVZ is a company fully owned by the Russian government, with 70,000 employees and sales of US\$6 billion in 2012. Its meeting with Hyundai Rotem at this time is to talk about cooperating on the construction of a local plant and technology transfer for the Trans-Eurasian Railway Project.


“We’ve decided to join the project full scale through our cooperation with Russia

and set up detailed plans,” said the Korean company, adding, “We’re planning to take a leading role in the design of train cars, supply of necessary equipment and system engineering while co-manufacturing train vehicles with our Russian counterpart.” The company also mentioned that the assembly and manufacturing of train cars could be underway in North Korea if the North agreed to the connection of the networks.

Hyundai Rotem is planning to make use of this opportunity for Trans-Korean Railway (TKR) construction. The Trans-Eurasian Railway is to connect the 9,297km-long railroad tracks of the Trans-Siberian section to the European Railway that links Moscow with London. If the TKR is built to connect Busan City and Najin in North Korea, people and goods can be transported by train from Busan all the way to London.

“One of the Korean government’s

foremost goals is to shore up cooperation between Russia and Korea in the Eurasia region,” said President Park Geun-hye at her summit talks with Russian President Vladimir Putin on September 6. She continued, “I hope that there will be a rail network departing from Busan and heading for Europe via Russia.” The same idea has been suggested by Hyundai Motor Group chairman Chung Mong-koo, too. He recently remarked, “We can save a lot of cost and time by exporting our cars to Europe by means of the Trans-Siberian Railway.”

In the meantime, Hyundai Rotem is preparing to make inroads into Russia in various fields. It is currently working on high-speed and long-range locomotives that suit local environments, and is preparing to participate in the US\$4.2 billion bid for the 2,500 subway cars, and US\$400 million bid for the 231 circular railway cars to be in operation from 2015 in Moscow. 

## LNG BUYERS GROUP

# Japan, India to Form Body to Lower LNG Prices



Japan and India have decided to establish a buyer group for liquefied natural gas (LNG) in order to lower fuel prices.

The Wall Street Journal (WSJ) reported on September 10 that Japan's Minister of Economy, Trade, and Industry Toshimitsu Motegi and India's Minister for Petroleum and Natural Gas Veerappa Moily reached an agreement in Tokyo on September 9 to form a multilateral organization of LNG importers.

Japanese and Indian ministers asked other big LNG importers in Asia, including Korea and Singapore, to join the group. They invited Korea to be a member, since it is the second biggest buyer,

and the state-run Korea Gas Corporation is the largest single buyer of LNG.

It is the first time that LNG importing countries in Asia have created a group to take action, despite sporadic complaints about prices in the past.

"LNG prices in Asia are significantly higher than those in Europe and North America. Purchase prices should be set at levels where both LNG importers and exporters can agree," the two ministers said in a joint statement.


They also mentioned non-transparency in LNG price-setting. They said that since contract prices between parties involved in business deals are strictly confidential,

there are no reliable price standards in Asia that truly reflect supply and demand.

Expensive LNG prices in Asia are attributable to long-term contracts linked to oil prices. A recent drastic decrease in spot prices for natural gas caused by the shale gas boom are not reflected in long-term contracts.

In summer 2013, Asian LNG importers paid as much as US\$18 per million British thermal units, six times more than what North American buyers paid. A Japanese government official commented on this issue by saying, "Our import LNG prices are 30 percent higher than those in North America, even after the liquefaction and transport costs are factored in."

A growing use of LNG in import countries has increased their desire for lower prices. Asian countries such as Korea and Japan have increased LNG imports, owing to a greater demand for electricity arising from the hot summer. In particular, Japan, the world's biggest LNG importer, has increased its import volume for two years, after the shutdown of the Fukushima reactor. On the other hand, growing energy imports in India caused by weak currency have led to a rising trade deficit. This vicious circle prompted the country to actively negotiate for lower prices.

However, exporters are vigorously trying to defend current LNG prices. LNG sellers such as Russia and Qatar are seeking countermeasures by creating their own group. In a July forum for gas importers, Russian President Vladimir Putin said that the current system should be maintained so as to stabilize supply and demand. Then, he urged exporting countries to make a concerted effort to fight for the existing system. 



## ANGI-AGING MARKET

## Growing at an Explosive Rate



Anti-aging is emerging as a new keyword in the beauty industry. It can be defined as middle-aged consumers' preference for functional beauty care products that help them look younger than their age.

According to the Samsung Economic Research Institute, the ratio of those in their 50s to the entire population of Korea has recently surpassed the 13% mark, and the consumption by those in their 50s accounts for 22.5% of domestic consumption. The figures show that the anti-aging market will keep growing rapidly down the road. "The market is growing at an annual average of 10% each year these days, and is likely to reach 28.3 trillion won [US\$25.7 billion] in size by 2020," it said.

Related companies are getting more and more popular with stock market investors, too. Examples include Medytox, Cell Biotech, and Bioland.


Medytox is a company engaged in the production and R&D of A- and B-type therapeutic proteins against botulism and the like, and the company has led

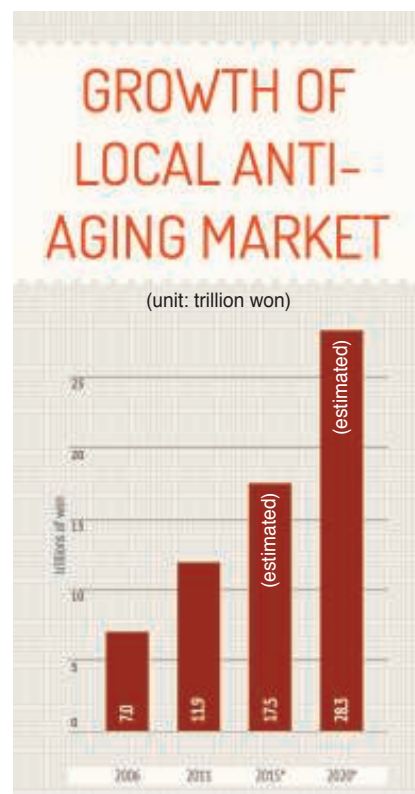
the skincare market with its anti-wrinkle products. It is planning to make inroads into the Russian market in the second half of this year, and also increase its exports to Thailand and Japan. Tong Yang Securities has recently estimated the company's annual sales and operating profits for 2013 at 47.9 billion won (US\$43.3 million) and 21.2 billion won (US\$19.2 million), respectively.

Cell Biotech is specialized in the production of probiotics lactobacillus. It is capable of starter development to the production of finished goods based on its double coating technology, and has shipped its products to the European and Asian markets. Though 95% of its sales have been derived from business-to-business marketing, it is planning to focus more on business-to-consumer marketing in shopping malls, hospitals, and pharmacies. Its annual turnover and business profits for this year are estimated at 30.4 billion won (US\$27 million) and 8.1 billion won (US\$7.3 million) each.

Bioland is the leading health food materials supplier in Korea, producing

hyaluronic acid for moisturizing, albutin for skin whitening, and so forth. It is expected to achieve yearly sales of 81.3 billion won (US\$73.8 million) and operating profits of 18.4 billion won (US\$16.6 million) this year.

The beauty care market of Korea has grown mainly in the cosmetics (75% of the market) and medical (18%) sectors. However, securities market experts are saying that the anti-aging market will have a great impact upon a variety of fields, ranging from sports and leisure activities to clothing, applied science, and electronics. 



Source: Samsung Economic Research Institute and Tong Yang Securities

## HEALTHCARE BUSINESS

# Competition between Korea, Japan Getting Fierce in Emerging Markets



According to a September 4 report published by the Institute for International Trade (IIT) of the Korea International Trade Association (KITA), Korea and Japan are expected to vie with each other for the healthcare markets of emerging economies. But Korea appears to be in desperate need of systematic support by the government, since medical facilities in the country are small in size.

The report says that most of the Korean medical institutions abroad are small-scale professional clinics. Therefore, it is hard to find a success story for the export of a Korean-type healthcare system. For difficulties in Korean companies' overseas expansion, the medical industry cites an insufficient system for financing healthcare institutions, a lack of international-standard medical centers, and healthcare

regulations.


The situation is different with Japan. In April 2013, Medical Excellence JAPAN (MEJ), established in 2011 to attract foreign patients, was reorganized as an institution supported by the government for the export of the healthcare industry. The support aims to help exports in a way that combines medical services, including medical diagnosis and treatment, medical personnel training, hospital management, health insurance, medical devices, medicines, and construction materials for hospitals. Japan's prime minister Shinzo Abe is also trying hard to facilitate the entry of the Japanese medical industry into overseas healthcare markets as witnessed by his visits to Russia and the United Arab Emirates (UAE) this year.

The report also said that Korea and

Japan are targeting emerging economies in Asia and the Middle East, rather than advanced ones. Thus, it is predicted that there will be intense competition between the two countries.

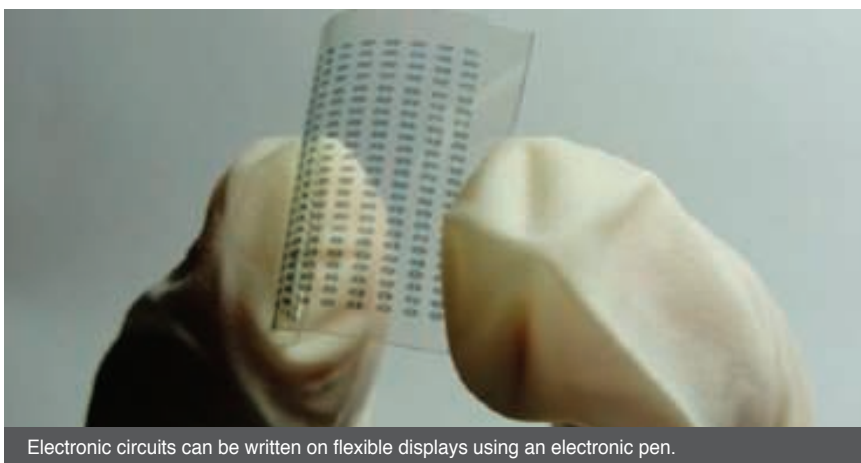
IIT senior researcher Park Gi-im said, "To encourage the export, a number of things need to be done. First, healthcare-related industries should work together to create full-scale expansion into the emerging market through a public-private partnership. Second, the government ought to ease regulations on healthcare. Next, domestic and local training for medical staff, translators, and coordinators is necessary. Finally, industry-academic cooperation to strengthen medical competitiveness should be promoted."

Meanwhile, Korea's medical institutions have already entered the market in China, the US, Mongolia, and Kazakhstan.

The Ministry of Health and Welfare is planning to invest funds worth 100 billion won (US\$91.5 million) for domestic hospitals' expansion in other countries by 2017. The Ministry also intends to run a comprehensive information system and to reduce healthcare regulations. 

## KOREA'S CHEMICAL INDUSTRY

# Expanding Electronic Materials Businesses



Electronic circuits can be written on flexible displays using an electronic pen.

**K**orea's major chemical companies are promoting the electronic materials business as a new growth engine.

As the manufacturing sector, which mainly produces finished products, is reaching maturity, the importance of competitiveness in the materials industry as the basis of the manufacturing businesses appears to be on the rise.

It is hard to enter the materials market compared to the Business-to-Consumer (B2C) industry, such as the household appliance manufacturing industry, since a large-scale investment is needed. However, once technical skills are obtained, they can greatly boost long-term profits with charging patent royalties.

Accordingly, group subsidiaries engaged in the chemicals business seem to be growing in stature.

According to industry sources on September 1, despite the sluggish economy, key players in the chemical industry are showing signs of recovery in domestic sales thanks to the high performance of the electronic materials business.

LG Chem witnessed 23.7% of its gross

operating profits in the field of information and electronic materials. Those profits are attributable to increasing sales of high value-added products including 3D Film Patterned Retarders (FPR), and Indium Tin Oxide (ITO) coating films.

Its information and electronic materials business accounts for only 10.4% of the company's total sales, but its profitability is highest among the three major areas.

The largest Korean chemical company is occupying over 85% of the global FPR market by developing the world's first FPR 3D technology in 2010. Each year, the company increases sales and business profits in the field of LCD glass substrates and ITO films, formerly dominated by Japanese companies, after its success in the development and mass production of those products.

The significance of Cheil Industries is also growing in the Samsung Group as a core subsidiary, as Samsung is actively supporting the electronic materials industry.

In 2004, the electronic materials field made up merely 6.4% of the Samsung

affiliate's total sales. But afterwards, it continued to show steep growth with 8.3% and more than 10% of the company's overall sales in 2005 and 2006.


In Q2 2013, two-thirds of Cheil's operating profit came from the electronic materials field. Semiconductor and display-related materials such as organic light-emitting diodes (OLED) and electron transport layers (ETL) were the industry's important driving forces.

Cheil is sharpening its competitive advantage, as witnessed by the recent acquisition and takeover of Novaled AG, a German-based organic light-emitting diode (OLED) company, with Samsung Electronics.

With the opening of Samsung's research institute for electronic materials, the role of Cheil Industries in the Group seems to be growing.

Meanwhile, SK Innovation, the core company of SK Group, began to increase its production of Flexible Copper Clad Laminate (FCCL), the main material for Flexible Printed Circuit Boards (FPCB).

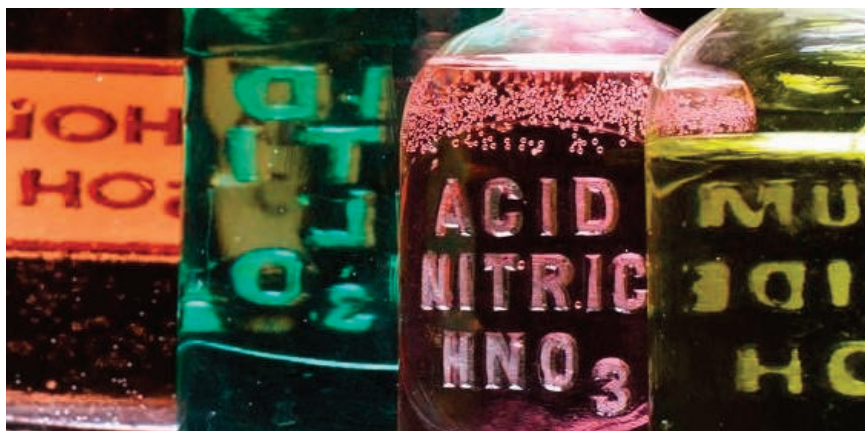
The company is also backing the electronic materials business by establishing a joint partnership with Continental AG, one of the world's leading manufacturers of auto parts. The deal is intended for the business of secondary cell batteries for electric vehicles.

Finally, Hanwha L&C is reducing its focus on construction materials while boosting the electronic materials business. The company recently started to mass-produce ITO films, one of the core materials for touchscreen panels. Currently, the Hanwha affiliate is increasing the sales volume of electronic materials so that the materials business can represent over 60% of the company's overall sales. 



## ACT ON CHEMICALS

# Multinational Companies Eyeing Korea's Chemical Testing Market



Those in the business world are greatly concerned over the implementation of the Act on the Registration and Evaluation of Chemical Substances. Particularly, they are anxious about the huge costs entailed by the registration of a small amount of novel chemical substances. They are also worried about multinational testing agencies' dominance in a chemical substance testing and analysis market that is expected to reach at least several trillion won, several billion dollars, in size.

According to a report published recently by the Ministry of Trade, Industry and Energy, local testing organizations' capabilities are insufficient and their foreign counterparts are likely to dominate the market once the Act on the Registration and Evaluation of Chemical Substances becomes effective. In particular, Korea has no testing agency at all when it comes to 17 out of the 46 testing categories stipulated in the law -- 15 with regard to environmental hazards and two concerning harmful effects on the human body.

Once the law takes effect, a huge new market will open up in the field of chemical substance registration and evaluation. The

thing is, foreign entities are predicted to take up the largest part of it. Korean testing organizations are currently meeting just 46.3% of the total demand, but the percentage is forecast to drop further down the road.

"Foreign agencies' analysis costs are twice to five times more expensive than those priced by Korean organizations," said an industry insider, adding, "It seems that all of our options are running out but resorting to multinational organizations." A petrochemical industry source echoed by saying, "The new market worth several trillion won could end up in their hands if the testing and evaluation market was encroached upon by them."


According to the Act on the Registration and Evaluation of Chemical Substances, even those materials in an R&D stage are required to be registered. Entrepreneurs are claiming that such regulations could result in delays in R&D activities and the launching of new products.

The report published by the ministry supports their opinion. It points out that the registration and evaluation of chemical substances takes 10 months on average -- nine months for the testing and analysis for

the registration of harmful data and three months for the registration. It added that the process takes at least 10 months on average under the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation in effect in Europe.

Researchers and developers create various types of new chemical substances for experiments and the like. If the registration procedure takes as long as 10 months before the materials are allowed to be used, they cannot but face a significant decrease in their competitiveness against foreign companies.

The report also mentioned that the clause for a mandatory provision of the amount of use and sales volume of chemicals could lead to trade secret piracy and affect the business activities of small firms. This is why Gyeonggi Province governor Kim Moon-soo is strongly against the act as well. "The 2,800 or so companies located in Gyeonggi Province would be on the brink due to the financial burden amounting to 1.6 billion won per substance and deterred R&D efforts," he commented. Under the circumstances, the Gyeonggi Research Institute under the provincial government is doing studies regarding the possible impact of the region, and is planning to announce the research result within this year. The Federation of Korean Industries (FKI) has voiced concerns over the implementation of the law, too.

"Before the act comes into effect on the first day of 2015, we need to prepare lower statutes to provide against its potential side effects," an industry expert emphasized, continuing, "At the same time, I would like the government to be all ears to the business community with regard to the Toxic Chemicals Control Act and the Environmental Pollution Damage Compensation Act as well." 

## WOONGJIN CHEMICAL

# Korean World's First Reverse Osmosis Filter Developer Expected to Be Sold to Japan



Subordinated security bonds, once pushed aside by hybrid bonds, have once again become the preferred financing method for banks. In fact, these bonds are expected to increase in number as the Bank for International Settlements (BIS) affiliate Basel Committee on Banking Supervision (BCBS) will enforce its settlement regulations starting in December.

According to KIS bond evaluations on September 3, the size of banks' capital expansion through bonds has grown to 4.85 trillion won (US\$4.4 billion) this year. Of that, 1.55 trillion won (US\$1.41 billion) is new equity capital, and 3.3 trillion won (US\$3.0 billion) is subordinate security bonds.

The securities industry expected the number of subordinate security bonds to increase with the increased request to improve the equity capital ratios of domestic financial stock holdings.

The BIS ratio of domestic banks,

which was 14.3% by the end of 2012, decreased to 14.0% at the end of Q1 and 13.88% at the end of Q2.


The reason that the BIS ratio of banks dropped is that the speed of equity capital growth is slower than the increasing speed of risk-weighted assets. Domestic banks have shown a reduction in their net profits from 1.6 trillion won (US\$1.45 billion) by the end of Q1 to 1 trillion won (US\$909 million) in Q2. The net interest margin (NIM) has continuously dropped since 2011 to 1.88% by the end of Q2, which is the lowest since 2009. In addition, the corporate rehabilitation proceedings (legal management) of construction companies and STX Pan Ocean Company are steadily increasing bad account costs.

In fact, the Industry Bank of Korea and Korea Exchange Bank each issued 300 billion won (US\$272 million) with 10 year maturity terms. Hana Bank will issue 200 billion won (US\$182 million)

with 10 year terms, Daegu Bank 100 billion won (US\$91 million) at 10 years, and Gwangju Bank 60 billion won (US\$54.5 million) at 7 years in subordinate security bonds. Also, Woori Finance Holdings Company will issue 500 billion won (US\$455 million) in subordinate security bonds, while Kookmin Bank and Korea Development bank are also preparing to issue around 400 billion won (US\$363 million) and 500 billion won (US\$455 million) each.

What is causing banks to turn to subordinate security bonds rather than hybrid bonds?

This mainly has to do with the fact that the number of insurance companies, which are the sources of demand, has reduced drastically with the accounting management of investments in hybrid bonds changing to equity securities from debit securities. In the past, when hybrid bonds were managed as debit securities, the danger coefficient remained around 2%. However, when managed as equity securities, the coefficient jumped to 12%, becoming a burden on the RBC ratio, which is the solvency ratio for insurance companies.

KDB Daewoo Securities researcher Kim Min-jung said, "Considering that banks have recently seen a decrease in profit and felt a burden in capital expansion, along with capital reduction due to the amortization of subordinated security bonds maturing under 5 years, it is most likely for the number of subordinate security bonds being issued will continue steadily despite the burdensome financial charges." 

## PHARMACEUTICAL INDUSTRY

# 15 Out of 20 Companies Show Negative Growth

Since the across-the-board reduction of medical fees last April, most pharmaceutical companies have begun recovering, but the domestic medical supplies market still seems to be troubled. Out of the top 20 domestic and international pharmaceutical companies, only 5 were able to increase their sales since the first half of last year. Except for some pharmaceutical companies with new medicine exempt from the cost reduction, most domestic and international pharmaceutical companies have shown negative growth in their sales.

According to the domestic and international medical supplies sales reports by the market evaluation company IMS on August 26, total sales in the domestic medical supplies market dropped 3.6% to 6.721 trillion won (US\$6.022 billion) from last year's 6.971 trillion won (US\$). IMS data shows sales of only prescribed and general pharmaceuticals, excluding non-paid pharmaceuticals such as vaccines and exports.

### Negative Growth for Both Domestic and International Markets

According to this data, Pfizer Korea placed first in the domestic market with 271.3 billion won (US\$243.6 million) in medical sales in the first half of this year. However, compared to the last year's sales of 290.4 billion won (US\$260.8 million), this is 6.6% negative growth. Novartis Korea ranked second in sales with 242.5 billion won (US\$217.3 million), but this is also 1.7% less than last year's records. MSD Korea, at 238.8 billion won (US\$214.2 million), also showed negative growth of 1.8%.

Dong-A Pharmaceutical Company, ranking 1st in the country and 4th internationally, only made 213.6 billion won (US\$191.8 million), which is 15.6% less than last year's 253.2 billion won (US\$227.4 million). Hanmi and Daewoong also recorded 209.8 billion won (US\$188.4 million) and 203.6 billion won (US\$182.4 million) each, dropping

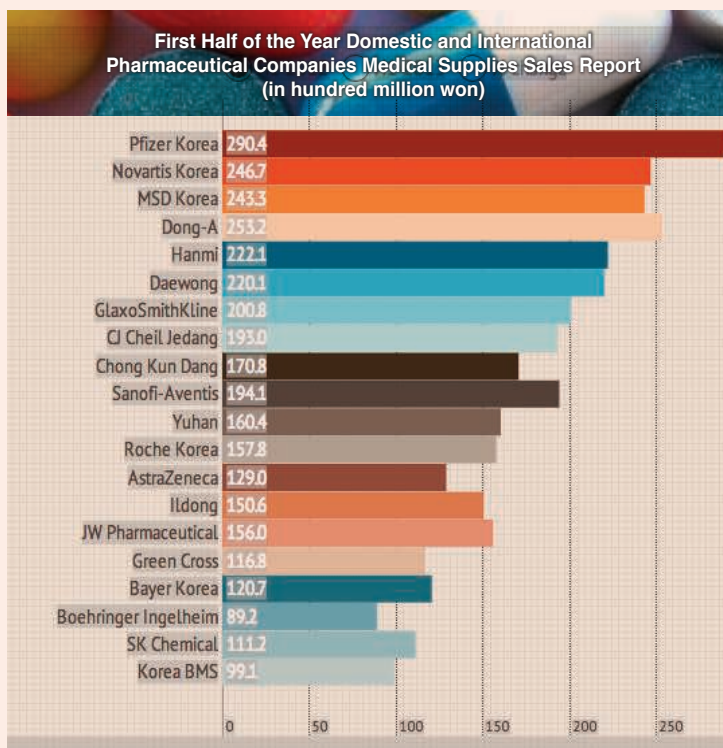
in sales compared to the first half of last year. Sanofi-Aventis (171.9 billion won, US\$154.4 million) and JW Pharmaceuticals (135.3 billion won, US\$121.2 million) dropped drastically. Yuhan, which ranked 1st in performance for the first half of this year, made 157.5 billion won (US\$141.4 million), coming in as 11th and showing a 1.8% negative growth.

Green Cross and Boehringer Ingelheim Thrive

While most domestic and international pharmaceutical companies showed negative growth, five companies (Chong Kun Dang, Green Cross, AstraZeneca, Boehringer Ingelheim, and Korea BMS) showed increased sales. In fact, Boehringer Ingelheim marked the

highest sales jump of 24.6% compared to the first half of last year. It sold 111.1 billion won (US\$99.66 million) worth of medicine. Two products that showed good sales were Twynsta for high blood pressure and Trajenta for diabetes. AstraZeneca, which released a few new medicines recently, showed a 5.6% increase in sales to 136.3 billion won (US\$122.3 million). Korea BMS (104.4 billion won, US\$93.54 million), which owns a hepatitis B medicine named Baraclude worth 100 billion won (US\$89.7 million), also showed an increase of 5.3% in sales. Among the domestic companies, Chong Kun Dang (176.4 billion won, US\$158.4 million) and Green Cross (120.3 billion won, US\$108 million) increased 3.3% and 3.0% each compared to the first half of last year.

A pharmaceutical representative said, "Since the cost reduction last year, the pharmaceutical market has turned so low that both the domestic and international companies are seeing decreased sales in their medical supplies," and analyzed, "In fact, the domestic pharmaceutical market is shrinking even more drastically, since local companies are now turning to health functional foods and medical equipment areas." <sup>BR</sup>



\* Rate of change (%) since last year shown in parenthesis  
Source: MS Health Data



## 7TH WORLD WATER FORUM

# Groundwork Well Underway with Establishment of Organizing Committee



The 7th World Water Forum, the largest festival in the global water industry, will take place in Daegu City and North Gyeongsang Province between April 12 and 17, 2015. The Korean government set up the organizing committee in April this year to that end, and the committee started its activities in earnest on August 16 under the leadership of chairman Lee Jeong-moo, president of the Korea Water Forum.

The World Water Forum is held every three years by the World Water Council in order to solve water-related problems. An average of 35,000 participants have joined each of the events from governments, international organizations, private-sector companies, and NGOs all around the world.

During the 2015 event, a variety of water-related issues are slated to be discussed in depth, while action plans and solutions to water issues are going to be sought on the basis of political coordination. The Water EXPO is scheduled to be

held during that time so that companies in the industry can show off their advanced technologies.

Past forums have been held under the themes of Thematic Process, Political Process, and Regional Process. In 2015, the new theme of Science & Technology Process is going to be added for participants to share their technologies and scientific approaches to global water issues.

Daegu City and North Gyeongsang Province succeeded in hosting the 7th forum by beating Glasgow, Scotland, by an overwhelming margin in November 2011 at the 43rd World Water Council board meeting in Rome, Italy. It concluded a detailed agreement regarding the organization, budgeting and specific programs in February last year, and taken part in the 6th World Water Forum in Marseille, France the following month to promote the subsequent forum.

In May 2012, the hosts gave a presentation to the top management of the World

Water Council, including former president Loic Fauchon, about its EXCO Convention Center, the Gangjeong Goryeong Reservoir, and the preparations for the event. Six months later, five local organizations – the Ministry of Land, Infrastructure and Transport, Korea Water Forum, Korea Water Resources Corporation, Korea Water Resource Association, and Global Green Growth Institute – flew to Marseille to join the board to further their cooperation with the council. Also, the Korean government enacted a special act for the purpose in December, and held a kick-off meeting for the 7th forum in May this year to discuss its main topics.

In addition, Daegu City is planning to open the 2nd Water Expo Korea at the EXCO Convention Center from October 30 to November 1. The exhibition is expected to create a forum for information exchange and water industry promotion among regions and countries as a rehearsal for the 7th World Water Forum. 

## WATER EXPO KOREA 2013

# To Be Held in Daegu City on October 30

The Water Expo Korea 2013 takes place at the EXCO Convention Center located in Daegu City between October 30 and November 1, to promote the water industry as a future growth driver of Korea. The Water Expo Korea is the country's first and foremost water business-to-business exhibition and conference, hosted by the Ministry of Land, Infrastructure and Transport, Daegu City, and the organizing committee for the World Water Forum 2015.

The purpose of the exhibition is to boost the international standing of Water City Daegu and establish global networks among water industry experts. This year's expo and conference are co-organized by the Korea Water Forum, which is a Korean government agency and think tank in charge of its water-related policy, technological cooperation, and international partnership.

GS Engineering & Construction, one of the leading players in the industry, participates in the trade fair as the gold sponsor. The company has recently taken over Inima of Spain, the 10th largest water treatment facility manufacturer in the world. Also, a number of companies doing business in the fields of water treatment, reuse, conversion, and membrane manufacturing are going to take part in it, including Veolia Water in France, the Korea Water Resources Corporation, Woongjin Chemical, Royal Precision, and Synopex.

The subsidiary events for this year's Water Conference include the 6th Challenges in Environmental Science and Engineering (CESE) Conference, the Membrane Society of Korea General Meeting and Autumn Scientific Meeting, the Water Management Symposium



and the Water Industry Cluster Vision Forum and Policy Presentation. A large number of global water industry experts, environmental engineers, policymakers, and scholars are going to visit the venue during the period. Government agencies, ordering bodies and related organizations are invited for business information sessions, too.

The water industry is emerging rapidly

with the population continuing to increase and climate change accelerating. Under the circumstances, the Water Expo Korea 2013 is expected to be a boon to Korean companies' global market penetration, technological development, and industrial network expansion.

For further inquiries, please visit the website [www.waterexpo.co.kr](http://www.waterexpo.co.kr) or email the organization at [waterexpo@exco.co.kr](mailto:waterexpo@exco.co.kr).

## SEOUL INT'L AEROSPACE &amp; DEFENSE EXHIBITION 2013

# Becoming Largest Aerospace and Defense Exhibition in Asia-Pacific Region



Seoul International Aerospace & Defense Exhibition (Seoul ADEX) 2013 takes place at the KINTEX Convention Center in Ilsan, Gyeonggi Province and the Cheongju International Airport between October 25 and November 3.

At the airport, the Black Eagle Team of the Republic of Korea Air Force will join the air show with 100 or so units of aircraft for three days from October 25. Between October 29 and November 3, aerospace and defense industry exhibitions will be held at the KINTEX Convention Center along with a number of seminars to be attended by personnel from the private, public, and defense sectors. The Prime Minister will participate in the events as the honorary chairman and the Ministers of National Defense, Trade, Industry & Energy, and Land Infrastructure & Transport will take on roles as honorary vice chairmen.

During the exhibitions, high-tech army, naval, and air force weapons, space launch vehicles, and satellites will be on display to give a clue to the present and future of the aerospace and defense industries. Approxi-


mately 330 companies from 32 countries are scheduled to join the fairs to turn them into the largest exhibition in the history of the local industries. The Republic of Korea Army, Air Force, and Marine Corps set up their own booths in the venue to promote their advanced weaponry and operational capabilities. The Agency for Defense Development will exhibit domestically-developed weapons, future-oriented technologies and the results of technological cooperation with the private sector as well.

The air show at the Cheongju International Airport will follow the opening ceremony hosted by the Minister of National Defense on October 25. The purpose of the show, which is open to everyone for free, is to increase the public awareness of the country's aerospace industry and let the general public be more familiar with it by means of pilot and flight experiences, honor guard marching, etc. The Air Force Military Band will stage a concert with citizens in the evening at the Cheongju Arts Center too.

In the meantime, the International Aerospace Symposium is scheduled for October

28 under the theme of "Enhancement of National Defense Capabilities and Promotion of Aerospace Industry to Coincide with Changes in Defense Industry Environments." Attended by the Air Force Chiefs of Staff of 14 countries, including Canada, Indonesia, and Peru, the symposium will be a nice opportunity to look into the Northeast Asian security environments with renowned speakers. In the evening of that day, the Prime Minister of Korea presides over a banquet so that the invitees and entrepreneurs both at home and abroad can meet with each other.

In the Business Day sessions from October 29 to November 1, around 90 participants from 70 or so countries will take part, including the defense ministers, high-ranking military personnel, and national defense experts. The hosting organization is expecting that the sessions will become nice business opportunities and forums of diplomatic exchange. To this end, the ROK Army and Air Force are going to have a chief of staff meeting and provide field force visit programs for the marketing of their advanced weaponry, examples of which include the KT-1 trainer, T-50 advanced jet trainer, Surion helicopter, K-9 self-propelled gun, K-10 ammunition resupply vehicle, and K-21 armored vehicle.

In addition, seminars for the development of the defense industry, private-public policy discussion sessions, and seminars on unmanned systems will be held at the convention center to attract visitors. From October 29, the ROK Army Honor Guard and Military Band will stage their performances and the Special Forces show martial arts demonstrations to make the festivities more colorful. B-boy teams are going to add flavor to the demonstrations, too. 





## Seoul ADEX 2013 Outline of the Exhibition

**Exhibition Title** Seoul International Aerospace & Defense Exhibition 2013 (Seoul ADEX 2013)

**Exhibition Period**

Public Air show: 25-27 Oct. 2013 Cheongju Int'l Airport

Business Days: Oct. 29-Nov. 1, 2013 KINTEX

Public Days: 2-3 Nov. 2013 KINTEX

**Organization**

Honorary Chairman: The Prime Minister

Co-chairmen: Minister of National Defense, Minister of Trade Industry Energy, Ministry of Land, Infrastructure and Transport

Host: Korea Aerospace Industries Association (KAIA), Korea Defense Industry Association (KDIA), Korea Trade-Investment Promotion Agency (KOTRA)

Organized by: Co-organizing office

Supported by: Ministry of National Defense; Ministry of Trade, Industry and Energy; Ministry of Land, Infrastructure and Transport; Ministry of Foreign Affairs; Ministry of Education; Ministry of Security and Public Administration; Defense Acquisition Program Administration.

**Expected Exhibition Scale**

Exhibitors: 330 companies from 33 countries

Visitors: About 300,000 (including 100,000 trade visitors)

## Contents

**Indoor Exhibition**

Aircraft (Rotary/Fixed wing), Space Materials, Weapon Systems mock-up and full scale

Weapon Systems Equipment, Simulator

Ground/Naval Weapons and Equipment

Others: Products related to Airports, Publications related to Weapon Systems

**Outdoor Exhibition**

Newest Fighter, Transport Airplane, Helicopter and Civil Aircraft

Armored & Unarmored vehicles, Assisting & Impending Mobility, Amphibious Equipment

**Demo Flight/Aerial Acrobatic, Demo-Maneuver of Ground Equipment**

Business purpose: KT-1, T-50, F-15, F-16, AH-64 demonstration flight and more

Event purpose: Black Eagle (ROK Air Force), Civilian acrobatics teams from overseas

Demo-Maneuver of Ground Equipment, manufactured in Korea: K1A1, K2, K9, K21, AFV and more

**Seminars**

International Aerospace Symposium / Air Chiefs Conference / Air Safety Seminars / Info-communication Development Seminars

International Technology Cooperation Organization Conference / unmanned systems Seminars

International Aerospace Technology Symposium / Korea and USA Joint Military Conference

## WORLD ENERGY CONGRESS DAEGU 2013

# Forum for Priceless Endeavor for Seeking Better Future Strategies

The 22nd World Energy Congress, held in Daegu City for five days from October 13, is expected to become a forum for in-depth discussions on a wide range of energy issues, including those associated with petroleum, coal, natural gas, nuclear energy and new and renewable energy.

This year's congress, which has the theme of 'Securing Tomorrow's Energy Today,' is slated to cover every energy-related issue of today and define the problems of energy security, the imbalance in the demand and supply of energy sources and their impacts on natural environments as the trilemma of the industry while trying to seek solutions to it from a variety of perspectives. Up to now, more than 238 global leaders have promised their participation as speakers, including energy sector ministers from all around the world, heads of influential international organizations and regional development bank governors.

They are going to exchange their opinions and views on energy security for sustainable power supply, the direction of nuclear power in the wake of the Fukushima disaster and technological innovation such as the development of new power transmission systems, too. In addition, the World Energy Scenario 2050 report is scheduled to be made available by the World Energy Council to give a look at the current status of power generation facilities and infrastructure worldwide, the latest global trend in the industry and the impact they potentially have on the environment.

"Our discussion topics at this time include the diversification of investment methods, uncertainty of the carbon price, future outlook of the alternative energy and atomic power sectors, emergence of new business models and the separation of oil prices from gas prices," said Dr. Christoph Frei, Secretary General of the organization.

The conference takes place every three

years, hosted by the World Energy Council with approximately 3,000 members located in 92 countries. During the course of its 90-year history, only two Asian countries have had the honor of attracting the event -- India in 1983 and Japan in 1995. It is expected to be the largest international conference in Korea held this year with more than 5,000 energy sector leaders, experts and entrepreneurs, government officials, academic personnel and many more joining it from over 140 countries all across the world.


The organizing committee for World Energy Congress Daegu 2013 has recently said that a large number of entities both at home and abroad are counting themselves in as the opening is coming closer. According to it, about 3,440 participants in 103 countries have put their names on the list as of September 16 and the figures are at least 26% larger when compared to the past congress in Montreal, Canada three years ago.

In particular, China is planning to send more than 300 official guests, led by the National Energy Administration (NEA), to outnumber all of the other nations except for Korea. It is going to run the China Pavilion during the industrial exhibition which coincides with the congress, too.

When it comes to Russia, Energy Minister Alexander Novak is scheduled to join the

event along with his colleagues at the Ministry of Natural Resources and Environment, Ministry of Foreign Affairs and the like to launch a special session titled Focus Russia, in which they will have in-depth talks on the energy policy direction of the country. The state-run natural gas company Gazprom, oil pipeline company Transneft and oil developer Rosneft also take part with RusHydro, the largest hydraulic power generation company in Russia, and the State Atomic Energy Corporation as well.

The entry also includes Saudi Aramco, Algeria's government-owned petroleum company Sonatrach, Brazil's Petrobras, Italy's largest oil company Eni, France's AREVA SA, Exxon Mobil, Alstom, Siemens, etc. They are eager to show off their top-notch and innovative energy technologies at the venue during the period.

"The petroleum and natural gas issues are the very core of the paradigm shift in today's energy industry and are very closely connected with such matters as energy security and carbon emissions reduction," chair of the organizing committee Jo Hwan-ik explained. He added, "All of us are anticipating that the congress will be a focal point around which global energy leaders ponder upon the world's energy roadmap for the future." 



## INTERVIEW WITH POLICYMAKER

# World Energy Congress to Foster Understanding of Energy Sector's Future



Kim Jon-dong, Deputy Minister of Energy and Resources Policy Minister of Trade, Industry and Energy (MOTIE)

With the opening of the 22nd World Energy Congress just around the corner, BusinessKorea had an exclusive interview with Kim Jon-dong, Deputy Minister of the Energy and Resources Office at the Ministry of Trade, Industry and Energy, who is responsible for national energy and resources policy. The following are some excerpts from the interview.

## What is the significance of the 22nd World Energy Congress taking place in Daegu City in October?

The World Energy Council has expanded its scope of activities to embrace government agencies, international organizations, think tanks and civic groups around the world since the congress in Montreal, Canada three years ago. This year's event in particular is going to be attended by more than 40 ministers from all over the world, including from China, Russia, and many Asian countries. We are looking forward to more diverse opinions and views in discussing sustainable future development of the global energy industry.

Also, this year's congress is especially meaningful in that it is held in today's revo-

lutionary era of the industry. Six years ago, when the congress took place in Rome, Italy, the peak oil crisis was the hot-button issue. However, the development of non-conventional energy sources such as shale gas is expected to be the new talk of the congress this year.

With the Asian markets increasing their presence in the global energy industry via a rapid increase in demand, the World Energy Congress 2013, hosted by an Asian country for the first time in 18 years, will be an opportunity to show Asia's status in the energy industry to the entire world.

## Please give some explanation as to main agenda and events, the scale of the congress, and the progress of preparations.

The theme of this year's conference is Securing Tomorrow's Energy Today. In that framework, the participants will discuss how to cope with the energy trilemma: that is, energy security, climate change, and the enhancement of access to energy resources. This is the threefold issue that the energy industry is facing now for sustainable development for the future.

We have completed the organization of 59 sessions and liaised with the speakers who will deal with the energy trilemma. The sessions will cover a wide variety of issues, ranging from the development of shale gas and measures to resolve energy-related funding risks, to the future of the new and renewable energy industry.

Up to now, more than 4,300 participants from 107 countries have promised their participation, and 223 companies from 22 countries are going to set up their booths in the venue to show off their advanced technologies. We are expecting at least 5,000 visitors to head for the event to turn the congress into a great forum for information exchange


among world-renowned figures in the industry.

The opening of the congress is about 30 days away. The organizing committee is in close cooperation with the host city and the authorities concerned with bringing the establishment of related infrastructure to perfection. We are preparing a hearty welcome for the guests.

## How much attention are the worldwide parties concerned paying to the Congress and what will be its ripple effects?

Over 240 speakers, including energy sector ministers, international organization personnel, and CEOs of global energy companies have confirmed their participation. They have been so interested that they say that they don't need any fees for their speeches, and they will attend the congress at their own expense. This shows how keenly they are interested in the prestigious conference.

The Congress is a golden opportunity to foster our broad understanding and appreciation of the future of the energy sector. We will be able to listen to global leaders themselves as to the future of shale gas, renewable energy, and nuclear power. At the same time, the policy directions and visions of advanced countries will be shared through the meetings with energy sector ministers from all over the world.

We are also expecting the congress to be an opportunity for Daegu City and North Gyeongsang Province to further promote their new and renewable energy industry, which will become one of the future growth drivers of not just both regions but also Korea as a whole. Also, substantial visible results are expected in the form of networking between global energy companies and the like. 



## EFFECTS OF BLACK CARBON

# Korean Professor Explains Causes of Accelerated Glacier Melting



Professor Kim Maeng-ki in his office explains his research findings with simulated materials.

Glaciers and thick snow banks in the Himalayas and on the Tibetan Plateau are precious water resources directly linked to the lives of billions of people living in the surrounding areas. Glacial ice and snow are known to be very important factors that affect climate change in Asia. But it has been recently observed that glaciers and snow in the region are melting so fast that it is impossible to explain with the idea of a greenhouse effect. So far, identifying the causes of the phenomenon that threatens the water supply in the areas has eluded academic circles.


Kim Maeng-ki, professor in the

Atmospheric Science Department of the College of Natural Science at Kongju National University, finally succeeded in finding the cause. He discovered that black carbon and dirt aerosol accelerate glacier and snow melting in the region.

Aerosols are particles of liquids and solids that are floating in the air. While floating, they pollute the air. Black carbon, also known as soot, is one type of aerosol. And it is created by the incomplete combustion of fuels and burning biomass. When the black carbon, which can easily absorb sunlight, soaks up the sun's rays, the earth's atmosphere is heated. The heated atmosphere causes clouds to precipitate faster. As a result, the amount of solar radiation that the surface area of the Earth receives is increased, thereby heating the ground.

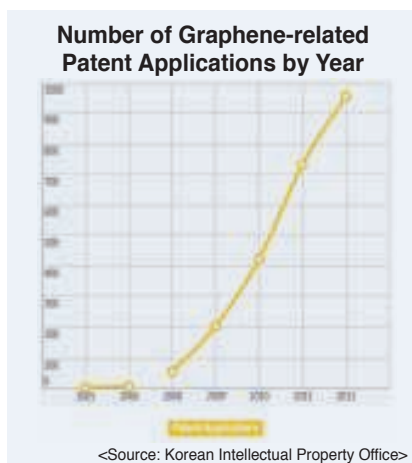
Professor Kim found that the effects of radiation and heating by black carbon hasten the timing of glacier and snow melting by pulling up warm air to the southern region of the Himalayas and Tibetan Plateau like a heat pump.

To prove his theory, the professor applied five kinds of 3D spatio-temporal distributions of aerosols, including black carbon, to a climate model made by combining ground observation data and Earth observation satellite data. He created as accurate a model as possible using this data, and then designed two experiments. One experiment accounted for the influence of aerosols, and one did not.

Professor Kim's research is expected to contribute to an improvement in climate change knowledge. Since carbon dioxide emissions linger for hundreds of years, it takes a very long time to see the results of CO2 reduction. In contrast, the effects of reductions in black carbon aerosol emissions can be witnessed right away. That is why the research results are expected to slow down the rate of glacier and snow melting. Furthermore, it is anticipated that the protection of water resources in the Himalayas and Tibetan Plateau will be made possible along with great improvements in climate change in the surrounding areas. 

## GRAPHENE PATENTS

## 93% of Graphene-related Patents Owned by Korea



Korean companies are distinguishing themselves in securing essential patents related to the commercialization of graphene. An increasing number are succeeding in the development of graphene semiconductor technology, purification of graphite for the production of the material, manufacturing transparent display panels using graphene and the like to dominate the

global market in advance.

According to the Korean Intellectual Property Office, a total of 2,921 graphene-related patents have been applied for in Korea between 2005 and June 2013. By year, the number had stood at just three and seven in 2005 and 2006 each, but increased to 56 in 2008 and 204 in 2009. During the following three years, it soared to 423, 731, and then 954. The number has reached 507 in the first half of this year alone.

93% of the total have been applied for by Korean individuals and organizations. Back in 2005, the number of such patents was zero, but the percentage topped 70% in 2007 as businesses and colleges concentrated their efforts on technological development. In June this year, the percentage reached 97%. Subsidiaries of the Samsung Group such as Samsung Electronics, Samsung SDI, Samsung Techwin, and Samsung Electro-Mechanics have taken up the largest part, with the first applying for 225 graphene-related patents. They have been followed by LG Group subsidiaries (180 patents in total), SungKyunKwan University (147), the Korea

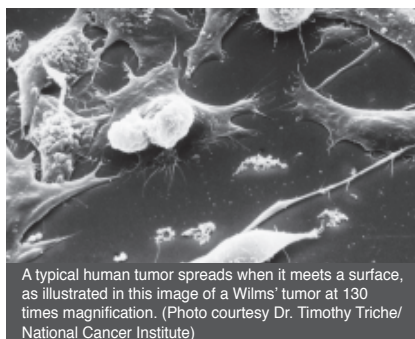
Advanced Institute of Science and Technology (129), and the Seoul National University R&DB Foundation (78). Of the non-Korean entities, the Semiconductor Energy Laboratory of Japan has topped the list by applying for 11 patents.

57% of the patents have been associated with the development of nanodevices, e.g. optical and electronic devices, secondary batteries, and solar cells. And 38% have been related to nanomaterials like nanopowder materials, nanostructures, and high-functional materials. Meanwhile, the ratio of nanoprocesses (patterning, chemical processing and the like) and nanobiotech and nanomedical technologies have remained at 3% and 2%, respectively.

1,095 out of the 2,921 patents have been related to the application field of optical and electronic devices such as displays, memory, and semiconductors, followed by nanopowder materials (697), rechargeable batteries (170), solar cells (127), and nanostructures (115). At present, Korean companies are considered to have an international comparative advantage in the nanodevice field in particular. **BK**

## MEDICAL TECHNOLOGY

## Checking Spread and Level of Cancer within 24 Hours Now Possible



A technology that allows the spread and level, as well as the outcome, of cancer to be diagnosed within a day may become available as early as next year.

According to the Gacheon University Gil Medical Center on September 3, a team of researchers that includes Professors Lee Bong-hee and Byun Kyung-hee, Ajou University Medical Center Professor Lee Ki-young, and Seoul National University Medical Center's Professor Baek Sun-han has developed a molecular diagnosis method to determine a cancer's progress and possible outcomes by specially staining a cancer patient's proteins and locating them in the cancer cells to anticipate its future movements.

According to the research team, using the protein staining kit will allow the possibilities of cancer metastasis and outcomes, along

with much more information, to be diagnosed within a day. Until now, only the biopsy method has been used to check whether or not a tumor is cancerous, which takes about a week.

Professor Lee Bong-hee said, "Commercialization is being discussed with a bio-oriented company and, if possible, it will be available in Korea as early as next year." He explained, "It will soon be available for not only brain tumors, but also breast, colon, prostate, lung, and other areas' tumors."

This research has been supported by the National Cancer Center and the National Research Foundation of Korea and published in the genomics magazine Genome Research. **BK**

## PROMOTION OF MID-SIZE BUSINESSES

# Korean Government to Place Stepping Stones for Mid-Size Enterprise Growth



President Park Geun-hye guides CEOs of Medium-size businesses to their seats before having luncheon meeting on August 29.

Mid-size enterprises with annual sales under US\$200 billion can now partially participate in the competitive market for small and mid-sized businesses. Also, about 160 additional mid-size enterprises are now eligible to receive benefits under the “Research & Development Investment Tax Deduction,” since eligibility requirements have been changed. Previously, enterprises with sales records for the last three years under US\$300 billion qualified, but the amount has been raised to US\$500 billion. This is the way the government will support legislation through a separate service in order to enact the “Mid-Sized Enterprise Special Law” pursued by political parties.

On September 17, the government announced the “Stepping Stones for Mid-Size Enterprise Growth” plan at an economic ministerial meeting hosted at the Central Government Complex.

Deputy Prime Minister and Minister of Strategy and Finance Hyun Oh-seok said, “Mid-size enterprises are becoming more influential to our economic growth, but when compared to those of advanced nations, still fall behind in number, size, and global competitiveness,” and added, “The government will make a supportive environment to relieve the burden on mid-size

enterprises trying to grow into global professionals.”


This plan mainly focuses on providing and enforcing customized support services so that mid-size enterprises can strengthen their global competitiveness.

First, R&D investment in the low 3% range will be increased to a 5% level by 2017. Also, the government will continue to try distributing professional researchers in several mid-size enterprises. The World Class 300 Project initially planned to be completed in 2020 has been rushed for completion in 2017.

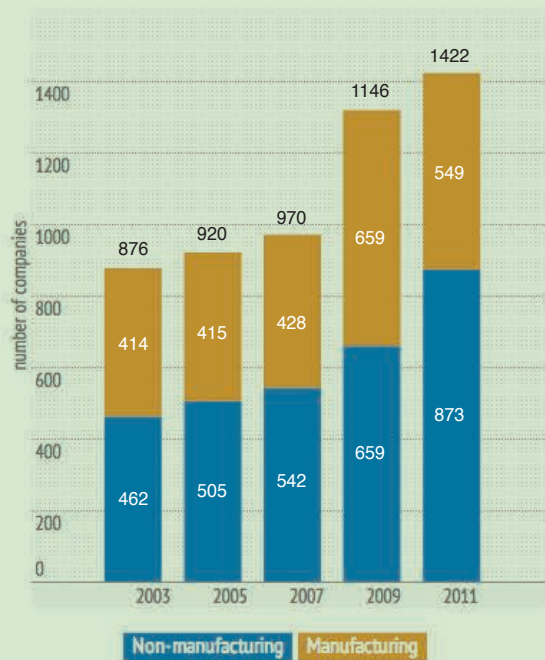
About 400 companies with the potential to export US\$100 million worth of goods will be selected for concentrated support and cultivation until 2017. The eligibility for the Bank of Korea’s inclusive finance, which conveniently lends money regardless of its purpose in terms of trade finance, has been expanded from companies with current sales records of less than US\$50 million to US\$200 million, allowing many mid-size enterprises to be eligible.

By the end of this year, US\$500 million worth global funds in cooperation with the sovereign wealth fund will become available to support mid-size enterprises’ international business expansion. The “Mid-Size Enterprise Growth Fund,” which is aiming to be 50 billion won (US\$46.4 million) this year, will be increased to 130 billion won (US\$120 mil-

lion) next year.

The difference between mid-size enterprises and small to mid-sized business will also be clarified. The government will announce its final differentiation criteria by November, after services and public hearings. However, some mention that it is unfortunate the government did not make any noticeable improvements to the amended tax bill when it comes to the family business succession inheritance deduction eligibility changing from “sales under 200 billion won” (US\$185.8 million) to “under 300 billion won” (US\$278.7 million). 

**Mid-Size Enterprise Report**  
(in number of companies)



\* Excludes relational companies  
Data: Small and Medium Business Administration



## VENTURE INVESTMENT

# Additional 300 billion Invested for Startupss



Starting second from right: Formation 8 CEO Ku Bon-woong, BlueRun CEO Yoon Kwan, Small and Medium Business Administration Assistant Director Kim Soon-chul, Altos Ventures CEO Kim Han-joon, and Korea Venture Investment CEO Chung Yu-shin on the very left.

About US\$200 million (220 billion won) of foreign venture capital from Silicon Valley in the US will be invested in promising domestic venture businesses.

This is the largest amount to ever be directly invested in domestic companies from overseas.

When the fund investment is completed, the money will flow into up to 60 domestic venture companies operating mobile, application, software, health care, and other busi-

nesses.


On August 27 (local time), the Small and Medium Business Administration and Korea Venture Investment announced they signed a memorandum of understanding (MOU) to invest US\$200 million with US Silicon Valley companies such as BlueRun Ventures, Altos Ventures, and Formation 8. In addition, they agreed to found a Korea Venture Business Starter Investment Center in Menlo Park, Silicon Valley, to maximize foreign capital attraction.

Korea Venture Investment, a fund of funds, will invest an additional 20 billion won (US\$17.9 million), leading the total investment amount to be about US\$210 million (about 240 billion won), which creates a leverage effect of 11 times. That is much more effective than the average leverage effect of around 4 times.

BlueRun Ventures, which will invest US\$160 million as the largest investor, will also invest some money into China to diversify its portfolio. Excluding this, the actual amount of US\$140 million (160 billion won), which is 67% of the total funds, will be invested in domestic venture companies.

What's noteworthy about this large-scale foreign capital investment is that the most advanced capitalists in Silicon Valley are directly administering the funds.

Thus, domestic companies will be eagerly motivated to expand their businesses into the US using the VC's global abilities.

Startups will be given 1-3 years to settle in the domestic market and set up stepping stones, and then they will move overseas. Competitive businesses will get support to work together with global companies such as Google and Facebook to foster continuous growth. 

## VC INVESTMENT

## Startups and Mid-Size Businesses to Receive Additional 300 billion Investment

With the establishment of Venture Capital (VC), chosen as the first business operator of the Korea Venture Investment's Fund of Funds, an additional 300 billion won in investment will go out to starting and mid-sized businesses in the global content, independent movie production, and other industries.

Then the first co-op establishment for the Fund of Funds investment, excluding a total of 306 billion won (US\$279 million) in patent accounts, will be complete. IMM Investment, chosen as the operator of patent accounts, will finish up its co-op establishment before the Korean Thanksgiving holidays. As the patent accounts operator, it receives 2 additional months in the deadline for its co-op establishment.

The investment portfolios of these co-ops are more diverse than ever. About 170 billion won (US\$155 million) will be invested in starting and mid-sized businesses, along with 136 billion won (US\$124 million) flowing into the cultural and movie industries.

## ISTANBUL-GYEONGJU EXPO

## One Million Visitors in Five Days



Spectators give a standing ovation to a special outdoor performance in Sultanahmet Square on September 1.

The Istanbul-GyeongJu international cultural Expo 2013 is coloring the historical and cultural city of Istanbul with Korean culture. With the excitement of the event ever growing, the total number of visitors broke through the one million mark in just five days. According to the organizing committee, a total of 1,194,000 persons visited the expo as of 10pm on September 5.


ber 5.

Among the sites where the expo is held, Sultanahmet Square was the most popular, with over 800,000 visitors passing through. The square hosts attractions such as the Korean traditional cultural experience hall, the Silkroad Bazaar that exhibits and sells folk specialty products from 19 countries, the Korean Content exhibition center, and the K-Food exhibition center. The Gyeongsangbuk-do GyeongJu Exhibition center, which is also located in Sultanahmet Square, attracted 213,000 visitors who could experience North Gyeongsang Province and Gyeongju's history, cultural heritage, and tourism.

Sultanahmet Square is the greatest masterpiece of Byzantine architecture bordered by the

Ayasofya Museum, a symbol of Istanbul history, and the Blue Mosque, a mosque representing Turkey. This choice of location by the expo organizing committee has contributed to the success of sharing Korea's national treasure of culture with Istanbul.

Abdulaman Shen, head of culture and society for Istanbul, said, "This is the first time in history that foreign culture has been introduced in such detail and depth in Turkey. North Gyeongsang Province has preoccupied Turkey." He added, "Korean culture is being introduced successfully here, which is providing a great chance for the international community and Turkey to understand it."

Lee Dong Woo, director general of GyeongJu International Cultural Expo, said, "This expo will serve as the first opportunity for spreading the Korean Wave of Traditional Culture starting from Istanbul, an historical center of civilization." 

## "KOREAN WAVE" WITH COSMETICS

## YG Entertainment, COSON Team Up in China

COSON and YG Entertainment will establish a cosmetics marketing corporation in Hong Kong with US\$10 million capital.

On September 3, the two companies held a signing ceremony for Hong Kong joint corporation establishment in Guangzhou, China with Hwanya Cosmetics Group, a company that ranks 3rd in the Chinese industry.


This joint corporation will be established with a joint investment of COSON and Hwanya

Group, and YG Entertainment will participate in the establishment through indirect investment in COSON.

A COSON representative said, "COSON's research and development and production abilities will be combined with Hwanya Group's distribution network and YG Entertainment's global content and marketing abilities," and added, "It will become an unprecedented synergistic cosmetics company."



YG Entertainment will be in charge of developing the joint corporation's brand and general brand marketing, using its successful marketing strategies for PSY, Big Bang, 2NE1 and other global artists.

Hwanya Group will have the right of sales in all of China for the cosmetic productions released by the joint corporation. 

## KOREAN OPERA

## Korea Dreams of a Quadrillion Won Opera Market

“If Korea focuses on cultivating excellent private mid-sized and regional opera companies, it will be able to make a quadrillion won market in the next 100 years.”


Choi Seung-woo, the secretary general of the Classic Times in Korea, stated a proposal to cultivate Korean opera, quoting an article from the International Herald Tribune of the New York Times, reporting Korea as the next international center stage of opera after Italy.

In his thesis for the Seoul National Univer-

sity Graduate School of Convergence Science & Technology titled "Expectations for Building the World's Center of Opera and Strategies for Success," Choi stated that as mentioned in the New York Times, Korea has globally renowned opera singers and over 120 private opera companies which can help the country become the center of world's opera culture if operated well.

He also said, "It is not easy to benchmark the European growth model, which takes a lot of time and money for transforming a nation

into a center of opera," and added, "Korea must activate the national functions while redistributing wasted opera-related funds more efficiently to cultivate excellent private opera companies." He also suggested that it is necessary to establish opera development funds for completing important assignments in order for Korea to step up as the next central nation of global opera.

He mentioned opera related education market, tourism market, and brand value improvement as examples. 

## CJ K-CON FESTIVAL

## Ending in Great Success



Americans joining this year's CJ K-CON are having good time eating Bibimbap at the Los Angeles Memorial Sports Arena on August 25 (local time).

**C**J K-CON 2013, which took place between August 24 and 25 (local time) at the Los Angeles Memorial Sports Arena, was filled with Korean Wave fans who desire to know everything about Korea.

The exhibition was a sort of Hallyu festival where the participants could experience Korean companies' fashion, food, IT products, cars, cultural content, and everything else related to K-pop. The 100 booths prepared for hands-on events were very popular.

Shannon Leader (16 years old), who has been a K-pop fan for two years, said, "I came here with my grandparents, pay-


ing US\$600 to purchase three R-seat tickets by selling my drawings of K-pop idols like EXO and G Dragon." With an excited tone, she continued by saying, "I want to know everything about Korea, including its food, fashion, and beauty industry, and

I'm planning to go to a graduate school in Korea." Another booth that caught much popularity was Bibigo's K-Food Class, where the visitors could be served Bibimbap. Although the host prepared 100 servings of rice with assorted vegetables, it was completely booked an hour and a half before the event opened. Maya Moyer, who visited the booth of Nongshim, ate three Shin Ramyun Cups in one sitting, saying, "The spicy taste of Korean ramen is addictive!" Right beside there was the Get It Beauty booth, where the students wanting to learn about Korea-style makeup thronged and the brand cosmetics

packages prepared by Korean cosmetics companies such as Hanskin and Cha & Park were sold out in just 10 minutes.

Hyundai Motor Company's booth, in the meantime, attracted young customers with its models like Veloster and Santa Fe. The small firms that joined the show for the first time this year, including accessories maker Mzuu, Ido Green Tea, and Hichen Cosmetics, were very popular with the audience, too. Ido's green tea bags, priced at US\$2 each, sold like hotcakes.

The K-CON festival, which had started last year, was sponsored by Hyundai Motor Company and Verizon this year. The number of the participating companies increased from 30 to 75 and the sponsorship soared sevenfold. The 1,200 VIP seats for the K-pop concert were sold out in only a few minutes even though they were priced at as high as US\$300, triple last year's price, just like the other 10,000 or so seats. The total audience doubled this year to over 20,000, and surpassed the break-even point. More than 80% of them were non-Korean Americans.

"More Korean companies need to take part in the festival for the K-CON to become a true Korea convention, not CJ's own festivities," said Kim Sang-hoon, business administration professor at Seoul National University. He went on, "I believe that the festival will spread the popularity of Hallyu to other industries like food and art." 

## KOREAN GAMES

## Ranking Top in Korean, Japanese Mobile App Markets

**K**orea's mobile game developer and publisher Gamevil announced on September 4 that its two newest games are occupying top ranking positions in the Korean and Japanese mobile application markets.

Hero Master for Kakao, Gamevil's own creation, and Monster-man Rumble, a product created together with Players, have become hits on Apple's App Store in Korea and the Google Play Store in Japan.

A day after release, Hero Master ranked top on the App Store charts for free apps, free games, strategy games, and RPG games in Korea.

Monster-man Rumble has also taken the number one position on the Google Play Store charts for free games in Japan, becoming the top new free Android game.

The reason for the two games' popularity in both countries lies in Gamevil's strategies. The company harmonized a play system and social functions based on its expertise in the development of mid-core mobile games. It also combined a card battle game and a slot play system, which is unprecedented in Korea. Moreover, it targeted Korea and Japan separately, and connected the game with Kakao. Gamevil's other smart approach was that it adopted a new concept, the conquest of Japan, for the game.



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●내용: 추첨을 통해 연극초청행사 쿼즈정답자 대상 문화상품권(만원) 제공 이벤트 등 \*매일 다른 내용의 이벤트 진행

●기간: 2013.10.1~10.31 (2013.11.4 당첨자 홈페이지 게시 및 개별 통보)

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●내용: 추첨을 통해 백화점·모바일·상품권(신세계 1만원권)을 최자별 500명(총 4,500명)씩 제공

●기간: 2013.3.4~12.4 총 9회차 (매월 10일 당첨자 홈페이지 게시)

“평생 사랑을 약속할게요”

국민의 노후를 든든하게  
**KB골든라이프 체험 이벤트**

●대상: 행사기간 동안 영업점을 방문하거나 홈페이지 KB스타뱅킹을 통해 「노후설계시스템」을 체험하고 이벤트 응모한 고객

●내용: 추첨을 통해 KB국민 G뱅크 50만원권(1명), 30만원권(2명), 10만원권(10명), 5만원권(50명)을 제공

●기간: 2013.10.1~11.30 (2013.12.11 당첨자 홈페이지 게시)

“국민의 노후가 더 행복해집니다”

**KB부동산 R-easy 출석체크 이벤트**

●대상: 이벤트 기간 내 KB부동산R-easy 홈페이지(www.kbreasy.com)에 로그인 후 버튼을 클릭한 고객

●내용: 최대 출석체크 일수 기준 (최대 출석체크자 다수인 경우 추첨)  
1등: LG 탭북 X-NOTE H160(1명)  
2등: 아이폰 미니 32GB(2명)  
3등: KB국민 G뱅크 5만원권(10명)  
4등: 모바일 커피 교환권 5천원권(100명) 제공

●기간: 2013.9.9~10.31 (2013.11.15 당첨자 홈페이지 게시)

“매일 매일 출석체크하고 경품 추천 기회를~”

## KB국민은행과 함께 가을스토리 만들기

다양한 이벤트와 따뜻한 스토리로 가득한  
KB국민은행에서  
당신만의 특별한 가을을 준비하세요

\* 예금 및 적금은 예금자보호법에 따라 예금보험공사가 보호하되, 보호 한도는 본 은행에 있는 귀하의 모든 예금보호 대상 금융상품의 원금과 소정의 이자를 합하여 1인당 "최고 5천만원"이며, 5천만원을 초과하는 나머지 금액은 보호하지 않습니다

\* 추첨은 난수 추첨으로 진행되며, 자세한 사항은 당행 홈페이지를 통해 확인 가능합니다

\* 경품 수령 거부 및 당행에 등록된 연락처 오류로 연락 불가 또는 경품 반송시 당첨 무효 처리됩니다.

\* 상기 경품행사의 제세공과금은 KB국민은행이 부담합니다. \* 본 이벤트 및 행사는 KB국민은행 및 제휴업체 사정에 따라 변경 또는 중단될 수 있습니다.

\* 기타 자세한 내용은 영업점 정규직원 또는 콜센터(1588-9999)로 문의하시거나, KB국민은행 홈페이지(www.kbstar.com)를 참조하시기 바랍니다.

\* 준법감시인 심의필 제596호(2013.09.27)

**KB 국민은행**

행복한  
대한민국을 여는

# 정부 3.0

국민의 기대와 희망을 모아 정부3.0이 새로운 변화를 시작합니다.  
개인의 행복이 커질수록 함께 강해지는 새로운 대한민국  
그 희망의 새 시대를 정부3.0이 함께 열어가겠습니다.

“정보의 개방과 공유로 일자리는 늘고 생활은 편리해집니다”

소통하는  
투명한 정부

국민 중심의  
서비스 정부

일 잘하는  
유능한 정부

공유

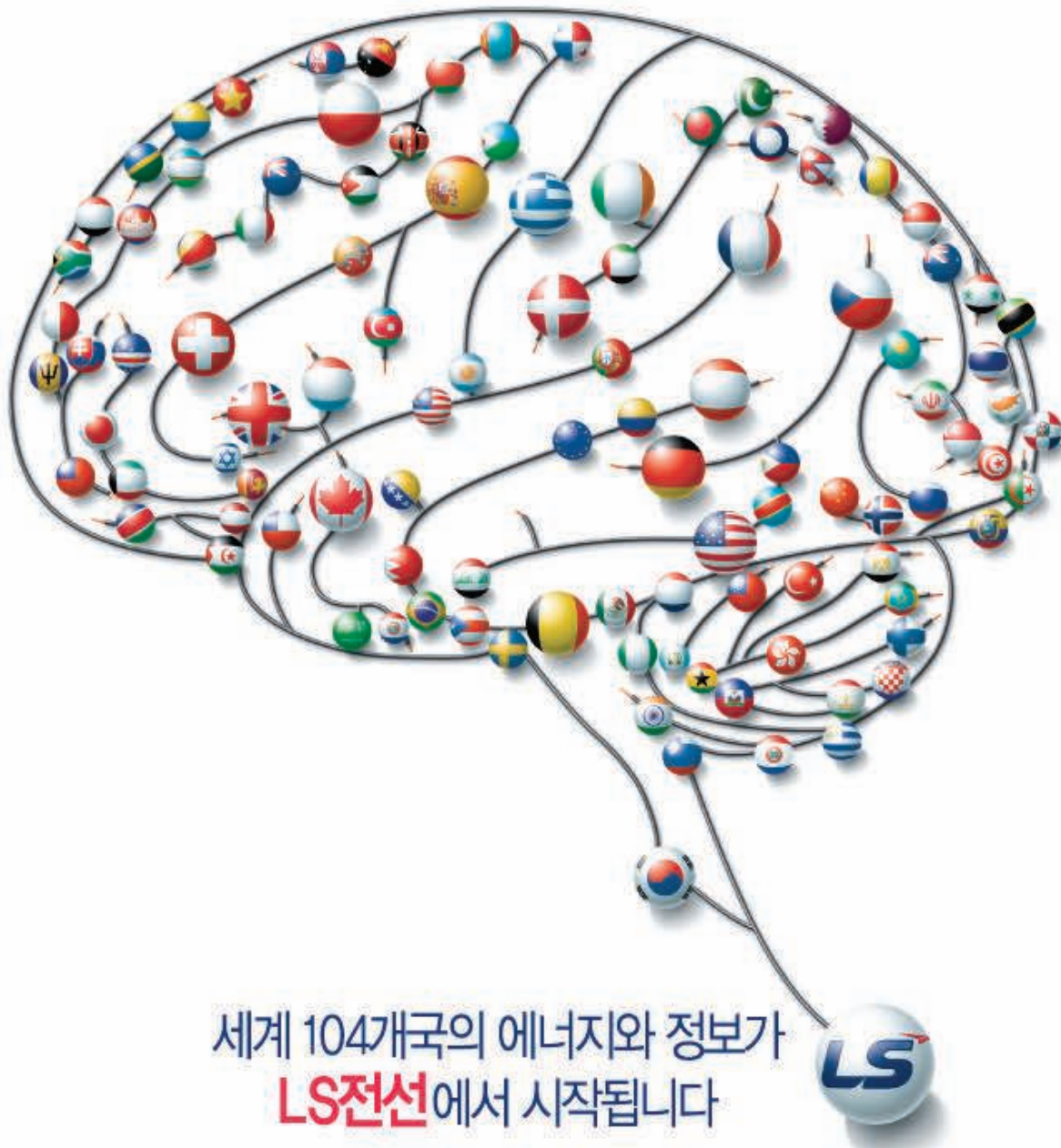
개방

소통

협력







세계 104개국의 에너지와 정보가  
**LS전선**에서 시작됩니다

LS전선은 작년에도 104개국에 케이블을 수출하였습니다. 전력과 통신 네트워크를 통해 전세계에 에너지와 정보를 제공하고 있습니다.

**LS전선**



\* Congratulations on the National Day of the Kingdom of Saudi Arabia



## The first to export petroleum products Making Korea export **the best** petroleum products

The petroleum product is the No.1 exported item in Korea in the first half of 2013.  
Last year S-OIL made \$20 billion dollars by exporting 65% of its petroleum production to 40 different countries across the world. S-OIL has focused on reaching the overseas market since its founding and continues to work on ways to increase the exportation of petroleum products.



산림청에서는 법정부적 청소년 학교폭력 예방·근절에 기여하고,  
산림교육 활성화를 위한 국민적 공감대 형성을 위해 "숲으로 가자" 운동을 벌이고 있습니다.



## 세상에서 가장 신선한 휴식이 있는 곳

빌딩 숲에 갇혀 바쁜 일상에 지쳐가는 현대인들! 매연이 아닌  
울창한 나무들이 뿜어 내는 자연의 숨을 들이 마실 수 있는 푸른 숲으로 당신을 초대합니다.  
더 활기찬 생활을 위한 에너지를 충전해 보세요.

[www.forest.go.kr](http://www.forest.go.kr)



KRMC has been standing on the new starting line  
with the new corporate name,

**KORAD**

(Korea Radioactive Waste Agency)

KORAD will make best efforts in order to  
provide more safe and clean environment  
with higher trustful expectations.

KORAD was established under  
the Radioactive Waste Management  
Act on 1 January 2009. KORAD will contribute  
to safe and clean environment.



**KORAD**  
한국원자력환경공단